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Ontario's Long-Term Energy Plan: Highlights, Analysis and Items to Watch

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November 2010

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Ontario Energy Minister Brad Duguid announced the McGuinty government's second supply mix directive to the Ontario Power Authority on November 23, 2010. The Supply Mix Directive, and the accompanying Long-Term Energy Plan (LTEP), outlines the major capital investments required over the next 20 years to meet Ontario's future energy needs. Here are some of the **key highlights**:

Total Cost: \$87 billion will need to be invested in Ontario's energy system over the next 20 years (2010 constant dollars), which includes a mix of public and private sector investments in everything from generation (nuclear, renewables, natural gas), Ontario's transmission and distribution system, conservation, etc. This amount is greater than the McGuinty government's 2007 Integrated Power System Plan that forecast an investment of \$60 billion.

Hydro bills: electricity bills will essentially double over the next 20 years, or 3.5% annually (inflation included). Last week, the McGuinty government took significant steps to lower hydro bills for consumers by introducing the Ontario Clean Energy Benefit which will lower bills by 10% over the next five years, as well as making adjustments to time-of-use periods so that Ontarians will have off-peak prices beginning at 7PM rather than 9PM Monday to Friday.

Nuclear: the McGuinty government reiterated its commitment that nuclear power will continue to represent approximately 50% of electricity generated in the province. While there were no statements about moving forward with new build nuclear at Darlington in the near term, the key activity over the next decade will be management and scheduling of the various refurbishments at the remaining Bruce and Darlington units.

New Renewables: energy from new renewable sources will be greater than was outlined in the original IPSP in 2007. New renewable resources (solar, wind, bio-energy) will account for 10,700MW of capacity by 2018 (excluding hydroelectric power).

Conservation: conservation continues to be a major component of the province's future supply mix. The new target for the province is 7100MW in peak demand reduction by 2030, with 4550MW achieved by the end of 2015 and 5840MW achieved by the end of 2020, including a variety of CDM activities in the pipeline, but new ones that will certainly be required if the province is to achieve these targets.

Natural gas: natural gas will be necessary to manage demand and the intermittency of new renewables in key parts of the province. The LTEP continues to identify the need for a natural gas peaker plant in the Kitchener-Waterloo/Cambridge area.

Transmission upgrades: the province signaled that it will now move forward with five priority transmission investment projects between now and 2018. These enhancements include:

- Series compensation in Southwestern Ontario (transmission facility upgrades);
- Upgrading existing lines west of London;
- New transmission infrastructure west of London;
- Enhancing the East-West tie along the east shore of lake Superior through a new transmission line (to Manitoba);
- New transmission line to Pickle Lake (Far North).

Analysis: items to watch and future opportunities

In addition to the highlights outlined above, there are several key elements in the Minister's announcement that may provide future opportunities for private sector investment in Ontario's energy system, or are developments that should be monitored. This includes:

Moving forward with CHP/CESOP

In addition to the supply mix directive, the Ministry of Energy is also issuing another directive to the OPA to procure 1000MW of Combined Heat and Power (CHP) projects, as well as (re)launching an Ontario clean energy standard offer program for projects of 20MW or less, in areas where local distribution is available. This is in fact a reissuing of directives that were issued by previous Ministers of Energy, but it is expected that the OPA will move forward shortly on these initiatives.

Transmission upgrades

Among the five projects that were announced, the new east-west tie north of Lake Superior will be submitted to the OEB to carry out a designation process to select the most qualified company to develop the transmission project. As well, the potential conversion of some units at Nanticoke to natural gas would also require transmission upgrades as well as extension of natural gas infrastructure to the site. Recognizing the tight timing, and the possible impact of refurbishment of Ontario's nuclear fleet on Ontario's transmission system, it is possible that announcements to start the EA process for the necessary transmission upgrades and natural gas infrastructure may need to begin in 2011.

Kitchener-Waterloo-Cambridge (KWC) gas procurement

While the plan overall essentially avoids specifics on regional requirements, the Minister's directive does acknowledge that action is required to address the future reliability needs of the KWC area. This is interesting to note, particularly in light of the recent success of Oakville residents to raise issues related to

the appropriate setbacks of new natural gas power plants in established communities (similar to the issue of wind farm projects which have an established setback of 500 meters).

New nuclear

The province remains committed to building 200MW of new nuclear generation, but its efforts have been paused because of the Federal government's decision to sell AECL (during the midst of Ontario's new build RFP process). Until a final decision is made by the federal government on the future of AECL, it is unlikely that a decision will be made on new build nuclear, as Ontario will wish to negotiate a risk-sharing agreement with the developer. Also, while AECL's ACR1000 design was selected as the preferred technology, it may be possible that the province will re-examine its decision around Enhanced Candu-6, which has been deployed successfully in other jurisdictions.

Campbell Strategies maintains an active energy practice, and has experience in energy policy making inside and outside of government. Should you have any questions about the Minister's Directive, the LTEP, or opportunities to invest in Ontario's energy future, please contact a member of our consulting team. To view a copy of the LTEP, please visit:

<http://www.mei.gov.on.ca/en/energy/>

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If you have questions regarding the topics in this newsletter or related government matters, please contact our consultants.

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