
Forum

Forum provides an opportunity for commentary on articles published in ESR and for the expression of opinion on any other subject that relates to energy problems. Contributions are invited. (For further information see inside back cover.)

Comment on: 'Changing Canadian Electricity Markets and the Future Role of Government'

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Dr. Mark Jaccard's generally helpful summary of the present upheaval in the electricity business, 'Changing Canadian Electricity Markets and the Future Role of Government' (*ESR* 6:2, 1994), contains a mischaracterization of Energy Probe's position on electricity restructuring. In fact, far from the impression Dr. Jaccard's article leaves, it would seem that he actually favours Energy Probe's proposals for reform.

Energy Probe does not advocate deregulation of the "entire electricity sector" as Dr. Jaccard suggests (p. 118). Rather, we advocate increased regulation of many aspects of Ontario's electricity sector and partial privatization of some aspects. We argue that Ontario Hydro's conventional generation — hydraulic and fossil-fired — should be privatized, and the bulk power market opened to competition. We do not expect that nuclear generation could ever be privatized. Regardless of ownership, we argue that the financial management of nuclear generation should be closely regulated. Transmission, distribution, and dispatch should also be publicly regulated — unlike the *status quo* in Ontario — regardless of ownership. Energy Probe advocates restructuring the electricity sector along the lines of Ontario's natural gas sector — an excellent working example of the benefits that can be achieved by parsing an industry into its competitive

and monopoly components.

Dr. Jaccard's suggestion that Energy Probe argues that "environmental problems should be taken care of separately" can be misunderstood. We argue, based on the UK experience, that many of the most pernicious environmental problems associated with our electricity system will be alleviated by our structural reforms. We do argue (for electricity and natural gas) that the environmental externalities which remain, after weeding out those externalities caused by allocative inefficiency, ought to be dealt with in regulatory fora outside rate regulation. Energy Probe's argument that rate regulators are poorly placed to be environmental regulators is not an argument for weak environmental regulation. For example, Energy Probe is Canada's leading advocate of stricter environmental and safety regulation for nuclear power.

Energy Probe's interest in competition, strengthened regulation, and partial privatization of electric power is not driven by ideology, but by the desire for effective means to end the present system's abuse of both consumers and the environment.

The rationale for continuing government control of Ontario Hydro does not fit Dr. Jaccard's generalization that the main rationales for government intervention in the electricity sector are promoting the public good, controlling natural monopoly, and managing externalities. Ontario Hydro's monopoly remains unregulated. Its monopoly power is now reinforced by the ability to offer discriminatory rates to preferred customers. Recovery of the debt overhang caused by nuclear and coal investments poses a major barrier to managing externalities. Rather than the rationales Dr. Jaccard ascribes, Ontario Hydro's persistence under public control is due more to government's attraction to controlling economic "levers" for political purposes, government's unwillingness to realize the likely shortfall should Hydro's assets be valued in the market, and uncertainty over ownership.

These criticisms aside, Energy Probe welcomes Dr. Jaccard's support for our core prescriptions: competition in generation and public-interest regulation of transmission and distribution.