

Memo to: Ontario Power Authority
From: Jack Gibbons, Ontario Clean Air Alliance
Re: OPA Peaking Generation Contract Consultation Process: Discussion Paper
Date: July 9, 2007

This memo provides the Ontario Clean Air Alliance's (OCAA) response to the Ontario Power Authority's (OPA) *OPA Peaking Generation Contract Consultation Process: Discussion Paper* (June 29, 2007).

According to the OPA's *Discussion Paper*, it has identified a need to contract for simple-cycle peaking natural gas-fired generation capacity in accordance with its "smart gas strategy".¹

According to the OPA, simple-cycle gas-fired peakers:

- will have average annual capacity factors of 2 to 3%;² and
- a capital cost of \$635,000 per MW.³

As a result, they are a very high-cost supply option. According to the OPA, the cost of meeting the top 88 hours of annual demand with a simple-cycle gas peaker is \$1.64 per kWh.⁴ That is, approximately 16 times the price of electricity for residential consumers on a peak demand day.

The OCAA fails to understand why the OPA believes that paying \$635,000 per MW for electrical generating stations which will be idle for at least 97% of the year is consistent with a "smart" strategy to meet Ontario's electricity needs.

Many other leading jurisdictions have recognized the high cost / low benefit paradigm of meeting peak demand through new supply and have moved aggressively to implement cutting-edge demand response policies and technologies to create win-win solutions to the problem of meeting peak loads. Ontario would appear to be moving quite tentatively down this more proactive path while simultaneously dedicating significant public resources to the reactive path of building costly dedicated peak generating facilities (and thereby directly undermining proactive initiatives). This much weaker split focus approach is, unfortunately, rapidly becoming a hallmark of Ontario electricity system planning.

It is the OCAA's submission that a much more cost-effective option to meet Ontario's peak day electricity needs is to pay customers up to \$1.64 per kWh to reduce their demands for grid-supplied electricity during times of peak system demand.⁵ Such a policy would provide the impetus and dedicated focus needed for successful demand response measures that will have multiple benefits, including reduced costs, improved commercial and industrial efficiency, and reduced emissions.

¹ Ontario Power Authority, *OPA Peaking Generation Contract Consultation Process: Discussion Paper*, (June 29, 2007), p. 3.

² OPA, *Ontario's Integrated Power System Plan: Discussion Paper 7: Integrating the Elements – A Preliminary Plan*, (November 15, 2006), p. 81.

³ OPA, *Supply Mix Analysis Report*, Vol. 2, (December 2005), p. 211.

⁴ March 16, 2007 letter from Miriam Heinz, Regulatory Coordinator, OPA to Kirsten Walli, Secretary, Ontario Energy Board, re: Ontario Power Authority 2007 Expenditure and Revenue Requirements Submission Ontario Energy Board File No. EB-2006-0233.

⁵ OCAA, *Reducing peak demand: How Ontario can expedite the coal phase out by reducing peak electricity usage*, Air Quality Issues Fact Sheet # 24, (May 14, 2007).