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Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, Ontario
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ATT: Kirsten Walli, Secretary
January 12, 2009.

Dear Ms. Walli,

EB-2008-0312
Notice of Application and Hearing
Ontario Power Authority
Proposed 2009 Revenue Requirement Submission For Review

In accordance with Procedural Order No. 1 dated December 17, 2008 ECMI submits its comments on the Ontario Power Authority Proposed 2009 Revenue Requirement. Two paper copies are enclosed. Electronic copies in Acrobat have been sent this date to boardsec@oeb.gov.on.ca.

Requested contact details are as follows:-

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Respectfully submitted for the Board's consideration,

Original signed by R. White

Roger White
President

cc Applicant, Intervenors & Observers listed in Appendix A of Procedural Order No. 1.

**ECMI comments on
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Should the OPA and IESO be combined to re-establish the IeMO?

The easy solution from the OEB perspective may be to give the OPA jobs to the IESO. Under the previous statute the OPA responsibility appeared to reside with the IeMO. The IeMO's disregard for what was its responsibility prior to the establishment of the OPA for ensuring long term supply was apparently what initially established the need for the OPA.

About the OPA's application

The OPA's acceptance of the September 2008 IESO outlook for establishing its 2009 usage fee instead of the more current IESO outlooks appears to deny reality. By the time the OPA application was filed on November 2, 2008, the TSX composite had already hit a level in the low 7,000's on October 20, 2008. It is hard to determine whether the IESO or the OPA has embraced unbelievable optimism to a greater extent. An energy forecast based on 30 year load profiles fails to capture the economic structural adjustments which took place as a result of the last recorded 50% reduction in the value of the stock market which occurred during the depression. It is apparent to even the casual observer that economic fear and job insecurity may be having a greater impact on energy use than all the OPA conservation programs combined.

The scale of the economic correction in the last 6 months of 2008 is unprecedented in the last 75 years. Economic recession will make a substantive reduction in the need for additional supply. The pending stagnation or deflation will not leave the electricity sector unpunished. Certainly in the short run electricity demand will fall and the cost of labour and other materials required to produce replacement generation will be reduced. These two factors in combination should result in a deferral of the need for an increased scale of activity at the OPA.

With the reduction in oil costs by over 60%, can natural gas be far behind? If so, the replacement cost for coal with natural gas certainly would be more cost effective and sustainable than many of the OPA programs.

While the September 2008 IESO outlook (forecast) may be described as a steady hand on the tiller, more current outlooks could continue to be described as irresponsibility optimistic on the part of the IESO. Even the federal government is suggesting that the downturn in the Canadian economy is profound and durable over more than the short term. The multi billion dollar contemplated economic stimulus package will likely require multiple years to have any substantial impact on the economy. This indicates that the federal government, as are most economists, of the view that the current recession is durable and likely to remain with us for several years. The US president-elect appears to share that same expectation. If the US economy is in a multi year recession then there is no reason to expect that Canada and Ontario in particular are likely to avoid a similar fate.

The Board and parties should recognise that during the post recession period in the mid 1970's energy growth was reduced to 1% or 2% compared with the then traditional 7%.

ECMI would suggest the current elasticity associated with electricity is as high as or higher than it was in the mid 1970's. If that is the case, the recession may well produce a lower societal value of future energy production. Permitting that lower value to flow through into the incentives which underpin the OPA procurement contracts will permit a multi year reduction in their activity while still permitting an adequate margin of capacity over demand.

The OPA is building generation through purchase &/or conservation. If there is no increased demand or a lower increased demand, then not as much OPA generation has to be built. From that situation, the number of contracts that the OPA procures should be reduced which in turn should require less OPA resources.

The proposed 40% increase in the OPA's usage fee is clearly low if one uses a more realistic energy forecast on which to base the rate and if one accepts the OPA's forecast costs.

If one accepts the OPA's forecast costs as reasonable and appropriate, then the following discussion imposing some reality therapy on the application would provide a context to evaluate options. If the forecast is overstated by 5% then the 40% increase would be increased to 47.2%. If the energy forecast is overstated by 7.5% then the 40% increase in the usage fee would be increased to 50.7%. Based on the logic presented by the OPA, if there was an 80% reduction in the forecast energy use in 2009, the usage fee would have to increase by over 600% to cover the forecasted 2009 net operating costs of \$70.206 million. Surely if energy demand decreased by 80% someone would ask if the OPA initiatives would be required. With the current tailspin of the economy the impact is not 80% but certainly the impact is greater than assumed and must be considered.

The end price for electricity is one of the fundamental inputs of the manufacturing process and unnecessary or inappropriate increases will adversely impact this already suffering sector.

ECMI's comments are not constrained by the Board Staff issues list but recognise one of the Board's two primary objectives - price stability for customers. It is hard to accept that a 40% increase in OPA usage fee recognises a statutory duty to maintain price stability. The Board's interim adjustment should be allowed to stand until June 1, 2009 at which point the rate should be reduced to the 2008 level until such time as the OPA produces a more realistic cost forecast and load forecast which recognise the state of the economy and the likely impact on the Ontario manufacturing sector. The assumption of business as usual and no changes required is not acceptable to the consumers in the province of Ontario. ECMI is of the view that the recession is not simply a recession but a structural adjustment in the Ontario economy. This has long term implications for the need for electricity and until this is addressed by other than trend lines the activities of the OPA should be put on hold.