A decade after deregulation, Alberta's electricity prices are soaring

BY DARCY HENTON JANUARY 6, 2012

Consumers who aren't signed up to contracts could end up paying nearly twice as much for their power this month as those who are.

Photograph by: Steve Hockstein, Bloomberg

EDMONTON — Calgary senior Stan Nykiel doesn't want to gamble on his electricity bill.

Like many Albertans, he has refused to shop for electricity in the competitive retail market.

Since the province moved to deregulate the retail electricity market in 2000, less than 30 per cent of Alberta electricity consumers have taken the plunge.

Instead, they are sticking with the volatile Regulated Rate Option (RRO), a monthly power price approved by the Alberta Utilities Commission, which has spiked 46 per cent to record highs in January.

Consumers who aren't signed up to contracts could end up paying nearly twice as much for their power this month as those who are. They paid 13 cents per kilowatt-hour in December, and are now paying 15 cents in January, nearly 100 per cent more than they were paying this time last year.

Driven by supply problems, Alberta electricity prices are now among the highest in the country.

But Nykiel, who lives on a fixed income, refuses to sign a contract because he doesn't want to be locked in at a high rate if prices drop. He is no fan of deregulation.

"It's not working to our advantage, for sure," he says.

Nykiel's last utility bill, which included electricity, water, sewer and garbage pickup, was more than $250 — higher than his mortgage payment used to be.

"It's horrendous," he laments. "We're getting further and further behind. My bill is just escalating like you wouldn't believe and it doesn't seem to be stopping."

Nykiel isn't the only Albertan wondering what's going on with power prices today and the province's historic decision to deregulate the electricity market.

Noel Somerville, the chair of Public Interest Alberta's seniors task force, also hasn't signed an electricity contract on principle because he doesn't believe people should have to speculate on a deal for an essential service.

"I have never bought into any of the package deals that various companies have been selling," he says. "My attitude all along is if I wanted to play the futures markets, I would play the future markets, but I don't want to do that. I want to keep paying the regulated rate for Albertans."

In the decade since regulation of Alberta's power market ended, consumers have been on a wild roller-coaster ride when paying their electricity bills, but the recent spike has sharpened the focus about whether the province made the right call.

Electricity producers contend Alberta annual average prices, when everything is taken into account, are not out of line with prices in comparable jurisdictions that don't have access to cheap hydro power, such as Quebec or Manitoba.

Evan Bahry, executive director of the Independent Power Producers Society of Alberta (IPPSA) which represents the electricity generators, says Alberta wholesale prices have been averaging 7.7 cents per KW-h in 2011, just 10 per cent more than the wholesale price a decade ago.

During the same period, housing prices climbed 126 per cent.

"From the producer's perspective, we believe Alberta's open market has worked as intended," he says. "It has shifted investment risk to developers . . . and wholesale prices have been below replacement cost for some key fuel types that Alberta relies upon."

The retail market price for electricity and the formula for setting the regulated rate option are another matter, he adds.

"Maybe there are problems with its design, I don't know," says Bahry.

"I think the challenge with the regulated rate option is that consumers may think it's supposed to be a low-cost option — and it is not."

Alberta's regulated rate option — the rate consumers pay if they haven't signed contracts with electricity retailers — was designed by the provincial government to encourage retail consumers to purchase contracts, which would theoretically attract more competition.

In July 2010, the governing Conservatives ended long-term hedging of electricity prices and collapsed the protective umbrella that had previously shielded residential, farm and small commercial consumers from wild price spikes.

Residential consumers paying the regulated rate option will feel the impact of that decision sharply this month as a result of a supply shortage caused by premature shutdown of two coal-fired power units and an unexpected maintenance shutdown of a new plant.

Alberta's Market Surveillance Administrator, the province's electricity watchdog, has acknowledged the RRO has its flaws.

Last year, ratepayers paid repeatedly for a facility shutdown that never happened.

Plans to close for maintenance the tie line that allows Alberta to import power from B.C. when demand is high boosted the price of electricity in the forward market, but that maintenance shutdown was subsequently deferred twice.

"RRO customers appeared to have paid for the transmission outage twice already and will still have to pay for it again when it is rescheduled in the future," the MSA revealed in a recent quarterly report.

Energy Minister Ted Morton says prices go up and down, but on average Alberta consumers are benefiting from deregulation, and the electricity prices they pay are roughly middle of the pack compared to other Canadian jurisdictions

"On balance, when compared to other jurisdictions, we're giving Alberta consumers competitively priced electricity given our lack of cheap hydro," he says.

Since the province began restructuring the electricity industry in 1996, the province has added 6,600 megawatts of power — representing a $12-billion investment — and that has helped the province keep up with its tremendous economic growth.

But Liberal MLA Hugh MacDonald, who has been one of the legislature's most vocal opponents of deregulation, said Albertans believe electricity is an essential service and want it delivered at the lowest possible cost.

Albertans do not want to pay an inflated contract rate to have stable electricity prices, he says.

"The government is driving them into the waiting arms of marketers," MacDonald says. "The answer to volatile price spikes is not to sign long-term contracts at higher than average prices.

"Consumers don't win there."

Kathryn Wood, Alberta Energy's electricity market executive director, says many experts believe any retail electricity market that attracts more than 25 per cent of consumers to sign a contract — as opposed to staying on the regulated price — is "doing very well."

"Notwithstanding that, it still seems like we haven't been terribly successful, and we don't have a lot of major competitors coming to Alberta," she concedes.

After deregulation was first introduced, rigid terms and conditions of some of the initial power contracts offered to residential consumers were "off-putting" and many Albertans are now reluctant to look at a contract, she says.

Today, there are 12 players in the Alberta retail market offering 19 products and most contracts no longer require consumers to sign on for long terms and pay penalties to get out of the contracts, Wood says.

But she says the province dropped the ball on educating Albertans about how the market works or talking about some of deregulation's success stories.

She notes Albertans are paying the true value of electricity, unlike other jurisdictions, which are subsidizing the costs or paying for the generation plants and accumulating debt.

And high power prices in December and January are a mixed blessing because they will signal to consumers the need to conserve electricity and consider signing a fixed rate contract.

"High prices will make us sit up and take note and that might make us change our behaviour. It is one of the most effective ways of changing behaviour."

Prices will level off once supply increases, Wood predicts. In the interim, consumers can either sign contracts with retailers or request their regulated rate provider to average their bills over the year to soften the price spikes.

But consumers should look before they leap into contracts sold door to door, cautions University of Alberta energy economics associate professor Andrew Leach.

He urges consumers to recognize that current electricity prices won't likely continue to be as high throughout 2012 and they should be wary about locking into a fixed contract at an inflated price.

"Do not sign a fixed contract based on the January prices," he warns. "Look at what you paid out over the year — not just what you paid in January."

Epcor spokesman Tim le Riche, representing Edmonton's city-owned power utility, says the average RRO has been about eight cents per kilowatt-hour during the past three years and, while it seems high now, it could be a lot lower in a few months.

While Leach says he is probably ahead of the game with his own electricity contract, the amount consumers save with a contract is not huge because the actual cost of electricity makes up less than half of the average residential utility bill. The rest of the bill comprises distribution and transmission costs, along with municipal franchise fees.

He believes the government should reverse its decision to eliminate long-term hedging of the regulated rate default option.

Consumers, however, should expect to pay a small premium for price stability — insurance against future price spikes, says the energy academic.

“It’s not like people are leaving $10 bills on the sidewalk by not signing these fixed price contracts,” Leach says.

Many Albertans are still confused over the Conservative government’s decision to move to a competitive electricity market in the first place when electricity prices in the province were in the five-cent range.In 1999, the power pool average price was just 4.27 cents.

Government information pamphlets at the time suggest the decision to deregulate was expected to reduce regulatory costs and curb prices.