

Electricity hits the open market

BY CARMINE DIRUSCIO

The opening of Ontario's electricity market to competition in May came and went without much fanfare and without the dramatic price increases that some people were predicting. However, rising temperatures this summer could mean rising prices for electricity, as demand for the commodity could exceed the current supply.

In the market, generators submit offers to supply power into the province's electricity grid in different quantities and prices each hour of the day. Every five minutes, the Independent Electricity Market Operator (IMO) – which manages Ontario's electricity exchange – will calculate a new spot-market price by balancing supply with demand.

The Globe and Mail reported ("Ontario risks blackouts, study says," April 18, 2002) the IMO has indicated that the province has a shrinking safety margin against brownouts and blackouts this year and possibly into next year. The low reserves mean that during summer heat waves or during other times of peak demand, the province could suffer shortages of supply or extreme price swings if any of the larger power generating stations malfunction or fail to meet their expected targets.

The first period of low reserves could occur early this summer, when air conditioners escalate the demand for electricity in the province. Last summer, Ontario Power Generation experienced the highest level of demand it had ever faced due to extremely hot weather. If this were to occur



again this year, customers may see rather large swings in their electricity bills if they do not have a fixed-rate agreement with an electricity retailer.

Since the market was deregulated on May 1, prices have actually been lower than they were previously. However, this was to be expected, as demand is lower in the shoulder seasons of spring and autumn. As the need for air conditioning and heating increases in the sum-

mer and winter, demand will rise. In fact, the contracts being offered by retailers could reflect these potentially higher prices. If you were planning to sign a contract, it might be prudent to do so when the prices on the spot market are lower.

It is going to take some time for the price of electricity to adapt to the open market conditions. Where the price for electricity will go is unclear.

By offering a fixed-rate contract, retailers are accepting the price risk. One could think of the fixed-contract prices, which are actually higher than the current average cost for electricity, as including an insurance premium against the risk of higher prices. However, the decision is a personal one and depends on your tolerance for the risk of price volatility on your hydro bill. ❁

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