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## CANADIANS MUST STOP TAKING ELECTRICITY FOR GRANTED

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Canadians generally take electricity for granted. There is an assumption that the lights will come on and machines will run when the switch is flipped. However, the black out of 2003 should have been a powerful wake up call of just how fragile the system is.

There was over-investment in Canada's electricity system during the 1970s and 1980s, but this was followed by under-investment thereafter. Accordingly, the average electricity generation asset in the country is more than three decades old. Much of it needs to be refurbished or replaced. Meanwhile, electricity demand will continue to rise in the years ahead, even allowing for greater energy efficiency.

Massive investment is required. In 2008, the International Energy Agency estimated that Canada needed \$240 billion dollars of electricity investment by 2030. In 2010, the Conference Board of Canada estimated that the requisite investment was a greater \$294 billion. This represents \$15 billion a year over the next two decades, split roughly between \$10 billion annually for generation and \$5 billion in distribution and transmission.

While the numbers are huge, they are conservative estimates. First, the projections assume that electricity demand growth will be quite moderate. However, if Canada is serious about reducing its carbon emissions, the necessary environmental policies would likely require greater electrification of the economy, such as widespread use of electric vehicles and more investment to tie renewable energy into the grid, which would raise demand. Second, there is no allowance in the projections for any unannounced initiatives to shift our current north-south dominated electricity system towards more east-west ties – an outcome that would be highly beneficial to the nation from a reliability and afford-

ability perspective, but would come at a high cost.

Given that it often takes ten years or more to go from an investment proposal to actual operation, progress is urgently needed now. However, there are some key obstacles.

The regulatory system is a quagmire. Electricity is a provincial responsibility, but electricity policy often overlaps across various provincial departments and can interact with many federal responsibilities. The federal and provincial governments must work together to build a clearer, more stable and less burdensome regulatory environment. Engagement by all stakeholders, including aboriginal groups and the private sector, is called for. This does not imply de-regulation, but rather smarter and less burdensome regulation. In a perfect world, the country would have a pan-Canadian energy strategy that includes electricity.

Investment also requires an adequate return. While many Canadians currently view electricity as costly, it remains heavily subsidized and prices are low compared to other industrialized nations. Given the scale and type of investment required, the inescapable conclusion is that electricity prices will have to increase. The system must be kept affordable for vulnerable households, such as low-income Canadians and seniors living on a modest fixed income, but subsidizing prices for all is not the way to achieve the desired outcome. Social policy is the appropriate tool to address such issues. Moreover, political interference in electricity prices to achieve short-term political gains must be resisted, as it deters investment.

Canada faces a major electricity infrastructure challenge. The ultimate goal is a safe, reliable, affordable and sustainable electricity system. This is not a nice-to-have outcome. It is absolutely necessary.

**Craig Alexander**  
SVP & Chief Economist  
TD Bank Group  
craig.alexander@td.com

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