

# London Economics International LLC

For Immediate Release

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## **FINDING THE SILVER LINING IN CANADIAN POWER INVESTMENT OPPORTUNITIES**

TORONTO, September 30, 2004 – For the doors to open to bring in new capital to grow Canadian power markets, Ontario needs to demonstrate its commitment to meaningful private sector involvement as investors carefully measure Canadian risks and opportunities against those in other North American markets, London Economics International President A.J. Goulding said in a presentation at the 2004 Power Canada Conference in Toronto this morning.

Key factors in Canadian power investment decisions, Goulding told the conference's "Electricity Market Restructuring in Canada" session, include understanding that:

- While Canadian markets show greater need for new generation than U.S. counterparts, market dynamics differ substantially;
- Canadian provincial governments have greater propensity and ability to intervene in power markets than do U.S. state governments;
- While Power Purchase Agreements (PPAs) are generally honored in Canada, they may lead to further stranded costs for consumers;
- Siting and environmental concerns vary greatly from province to province; and
- Ontario's future needs are largely a function of provincial decisions regarding coal shut-down and large capital projects OPG is asked to undertake.

Goulding also presented London Economics' analysis of the key characteristics shaping the investment potential in each of the 19 North American power markets (attached), including each market's status in terms of:

- Institutional autonomy
- Private sector roles
- Government roles
- Unbundling
- Supply-demand balance, and
- Political risk

In general, Goulding concluded that Canadian power markets lack institutional independence from provincial policymakers. “Private investors ask themselves: ‘Is California or Ontario really any less risky (or more rewarding) than investing in Mexico?’,” he said.

**Key characteristics of North American markets**

Market	Institutional autonomy	Private sector role	Government role	Unbundling	Supply-demand balance	Political risk
British Columbia	low	IPP, G&D	dominant	transco	growing need	moderate
Alberta	medium	all sectors	none	full	growing need	moderate
Prairie Provinces	low	IPP	dominant	limited	moderate need	moderate
Ontario	low	G&D	dominant	full	only if coal shut	high
Quebec	low	IPP	dominant	limited	growing need	moderate
Maritimes	low	all sectors	limited	limited	no current need	moderate
New England	high	all sectors	limited	full	no current need	low
New York	high	all sectors	NYPA, LIPA	full	no current need	moderate
PJM	high	all sectors	limited	full	moderate need	low
SERC	high	all sectors	TVA	limited	no current need	moderate
Florida	high	all sectors	limited	limited	growing need	moderate
MAIN-ECAR	high	all sectors	limited	mix	no current need	low
SPP	medium	all sectors	limited	limited	no current need	low
ERCOT	medium	all sectors	limited	full	no current need	moderate
MAPP	medium	all sectors	Nebraska	limited	no current need	low
PNW	medium	all sectors	BPA	limited	growing need	moderate
California	low	all sectors	CPA, LADWP	mix	growing need	high
Four Corners	medium	all sectors	SRP	limited	no current need	moderate
Mexico	low	IPP	dominant	none	growing need	high

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London Economics International LLC provides consulting services and expert testimony on economic, financial, regulatory, and strategic issues concerning energy and infrastructure industries to corporations, law firms, and public agencies world-wide from its Boston headquarters, with affiliated offices in Mexico City, Melbourne, London and Paris.