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TWO OBSTACLES TO LIBERALIZING THE ELECTRICITY SECTOR

By Gabriel Giguère

With its growing need for electricity, the Quebec economy could benefit from independent producers becoming more involved in order to ensure greater efficiency in new supply. For this to happen, the Quebec government will have to open up the electricity sector more to competition by relaxing the regulatory framework.

There are two major obstacles to liberalizing the electricity sector: the prohibition against independent producers directly supplying companies that propose new economic development projects and the 50 MW cap for dam projects owned by independent producers selling their production to the crown corporation.

The bill on the functioning of Hydro-Québec that the Minister of the Economy, Innovation, and Energy is set to table in the fall of 2023 should at a minimum remove these two obstacles in order to allow a greater contribution from independent producers.¹

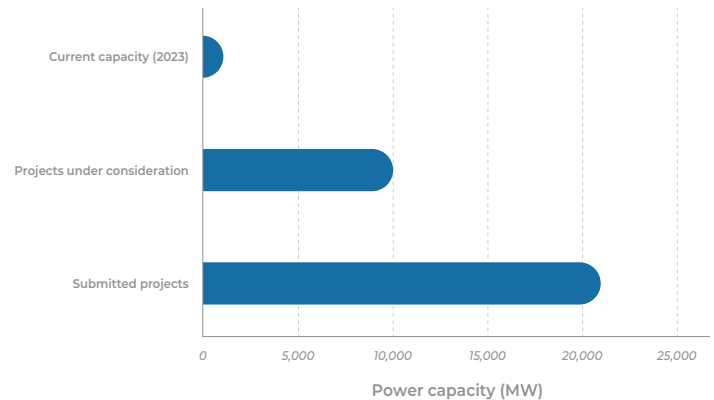
ALLOWING DIRECT SUPPLY

The current monopoly approach restricts the potential contribution of independent producers by preventing them from selling their electricity directly to companies.² Opening up the sector would stimulate competition between the different providers and encourage flexibility for our entrepreneurs. Moreover, the scope of the quasi-veto right on economic development given to the government and Hydro-Québec by Bill 2 would be attenuated,³ since a company could then be supplied by a different provider.

To ensure that companies are free to get their supply from independent producers, as they

Figure 1

Quebec's power capacity for economic development projects in 2023 compared to that required for submitted projects (MW)



Sources: National Assembly of Québec, *Journal des débats de la Commission de l'agriculture, des pêcheries, de l'énergie et des ressources naturelles*, Vol. 47, No. 12, May 4, 2023; Thomas Gerbet, "Il reste 1000 mégawatts au Québec pour des projets : 'On a un problème'," Radio-Canada, May 4, 2023.

are elsewhere in the world, legislative change is needed. Independent producers must be allowed to sell to clients other than Hydro-Québec.

South of the border, certain US states allow independent producers to supply energy directly to companies with considerable energy needs. This is notably the case of Innergex, a Quebec company that provides energy for Amazon's activities in Ohio. Its solar park, consisting of over 600,000 panels, represents installed power of 200 MW,⁴ equivalent to 20% of Hydro-Québec's current capacity to provide energy to new economic development projects.⁵

The case of Innergex in Ohio should serve as a reference point to stimulate the Quebec government's thinking regarding the possibility of authorizing independent producers to supply companies directly.

This change is all the more necessary given that Hydro-Québec could be unable to supply the electricity needed for the development of many projects (see Figure 1). There is a significant gap between the current power capacity for supplying companies with an economic development project (1,000 MW) and the multiple requests the government has received (totaling 21,000 MW). The imbalance persists even when comparing current capacity with the demand of projects being seriously considered by the minister (some 10,000 MW). This represents a drag on the economic development of the province.

The crown corporation's inability to meet the demand means that entrepreneurs will have to wait several years before being supplied with electricity. This amounts to giving the government and the crown corporation the power of life and death over projects. This is why it is more essential than ever to liberalize the sale of electricity.

ELIMINATING THE 50 MW LIMIT

At the moment, the use of independent producers as new sources of supply for Hydro-Québec is only authorized for dams with a capacity of 50 MW or less.⁶

However, given the urgency of developing new sources of electricity, now would be a good time for the government to reconsider this limit and allow independent producers to play a larger role in the province's hydroelectric projects. In this way, they could sell electricity produced by medium-sized (or large) dams, either to the crown corporation or directly to companies.

Furthermore, certain indigenous communities could contribute to this development, as they currently do in the wind power sector,⁷ since certain sites for potential dams could be located on their land.⁸

The Quebec economy will need more energy to grow in the coming years. Legislative reforms are called for to remove these two obstacles to liberalizing the electricity sector and introduce a new dynamism to the production of electricity, notably through hydro power. The bill the government is to table this fall, aiming among other things to modernize the legal and regulatory framework for energy,⁹ is the perfect opportunity to increase competition and stimulate innovation in this area.

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This Viewpoint was prepared by **Gabriel Giguère**, Public Policy Analyst at the MEI. The MEI's Energy Series aims to examine the economic impact of the development of various energy sources and to challenge the myths and unrealistic proposals related to this important field of activity.

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