

# Preliminary Assessment of the Economic Impacts of the Energy East Project on Ontario

Energy East Consultations  
Part Two  
January 2015



**OEB Energy East Consultation and Review**

Ontario Energy Board  
Commission de l'énergie de l'Ontario

# Mowat Centre

ONTARIO'S VOICE ON PUBLIC POLICY

The Mowat Centre is an independent public policy think tank located at the School of Public Policy & Governance at the University of Toronto and Ontario's non-partisan, evidence-based voice on public policy.



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# Approach to Preliminary Assessment

- We were asked to review the short and long term economic impacts of the Energy East project in Ontario.
- We assessed the three economic impact analyses (by Conference Board, Deloitte and CERI).
- We analyzed potential long-term economic costs and risks that may not be captured in the three economic analyses.



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# Estimated Benefits in Canada

		Development & Construction	Operation	Total
<b>GDP</b> <b>(\$ billions)</b>	Direct	\$4.55	\$22.95	\$27.50
	Indirect	\$3.65	\$6.96	\$10.61
	Induced	\$3.30	\$3.28	\$6.58
	Total	\$11.51	\$33.19	\$44.70
<b>FTEs</b>	Direct	58,654	23,615	82,269
	Indirect	37,176	63,716	100,892
	Induced	32,507	30,319	62,826
	Total	128,337	117,650	245,987

- From Conference Board report, maximum results. Based on 26 years (20 years operational, 6 years development/construction)



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# Estimated Benefits in Ontario

		Development & Construction	Operation	Total
<b>GDP</b> <b>(\$ billions)</b>	Direct	\$1.38	\$10.46	\$11.84
	Indirect	\$1.32	\$3.02	\$4.35
	Induced	\$1.21	\$1.54	\$2.74
	Total	\$3.91	\$15.02	\$18.93
<b>FTEs</b>	Direct	16,189	4,372	20,560
	Indirect	13,550	32,618	46,168
	Induced	11,531	14,408	25,940
	Total	41,270	51,398	92,668

- From Conference Board report, maximum results. Based on 26 years (20 years operational, 6 years development/construction)



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# General Findings

*As with any economic analysis, there is great uncertainty, but:*

- Some economic benefits are expected but estimates in the economic impact analyses are likely overstated.
- The economic impact analyses only show benefits, and do not consider other costs or broader policy issues.



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# Overstated Estimates

*The results from the economic impact analyses are likely to be overstated because of:*

- They use Input/Output (I/O) models.
- Some of the assumptions made when the analyses were performed.



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# Input /Output (I/O) Models

- Conference Board, CERI and Deloitte used I/O models to estimate economic benefits. I/O models are not very good at measuring large scale impacts across a large economy.
- Some concerns with I/O models:
  - They assume that past or present scenarios accurately predict the future, and do not account for changes.
  - They assume that resources are idle.
  - They use multipliers (an estimate of how spending on the project affects the rest of the economy), in the process of calculating indirect and induced benefits.
- When applied to large infrastructure projects, results from I/O models offer projections only about the potential impacts of the spending, not the costs.



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# Assumptions in economic analyses that could be questioned

- Analyses use 2009 data (latest available) in the I/O modelling but Ontario's economy has changed since then.
- Fiscal revenue may be lower due to nature of the project (conversion versus new construction) and how federal revenue is dispersed.
- Discount rates either not used or are low. A discount rate is used to value future costs and benefits in today's dollars. It is also measure the level of risk for a project. If discount rates were used in the economic modelling, the projected benefits would be lower.



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# Discount Rate Sensitivity

- To show possible effect of discount rates, total benefits to Ontario under different discount rates are evaluated. (Bold, italic are numbers in reports. All numbers are in 2013 dollars).

Discount rate (%)	0	2.46	5	8
Conference Board report (20 years of operation, high case)	<i><b>\$18.93</b></i>	\$13.75	\$10.29	\$7.66
Deloitte report (40 years of operation)	\$21.86	<i><b>\$13.03</b></i>	\$8.54	\$5.81
CERI report (25 years of operation)	<i><b>\$11.90</b></i>	\$8.81	\$6.84	\$5.35



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# Local benefits – Municipal Tax

- Local benefits, potentially important locally, generally small.

<p><b>Conversion</b> Northern Ontario</p>	<p>For the entire conversion section, TransCanada estimates that it will pay an additional \$3.5 million a year in property tax – a 13.5% increase from current.</p>
	<p>If the additional tax revenue is equally shared for the 28 pump stations, each pump station will lead to an annual \$125,000 in property tax.</p>
	<p>Example: City of Dryden collects \$13.8 million in property tax annually. A new pump station would hence add 1% in property tax revenue.</p>
<p><b>New build</b> Eastern Ontario</p>	<p>For the newly built section, TransCanada estimates that it will pay \$10.5 million a year in new property tax.</p>
	<p>If this additional property tax were equally shared among the five communities, each would receive an additional \$2.1 million.</p>
	<p>Route still uncertain, but the five communities received an equal share of revenue, then it would equate to around 3% increase in property tax revenue.</p>



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# Local benefits – Employment

## Development & Construction

Peak years for construction employment will be between 2016-2017, and will employ 0.7-1.0% of labour force in the region.

Due to skill shortages, temporary workers are expected to be employed. The amount of local employment is not clear.

## Operations

200 direct annual jobs in Ontario, approximately 0.01-0.02% of local labour force. It is not clear if this would involve the transfer of workers from the Canadian Mainline. If it would, then employment growth would be lower.



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# Potential long-term costs and risks not considered

*The results in the economic impact analyses do not consider possible wider economic costs, such as:*

- Increased GHG emissions could lead to other costs and risks.
- Possible disruptions to energy flows.
- Possible appreciation in the Canadian-U.S. exchange rate.



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# Example:

## Potential appreciation in the dollar

- To show the uncertainty around the impact analyses we modelled the possible effect on the Canadian dollar from increased oil exports due to Energy East.
- Under this one scenario, the new oil exports could lead to a sufficiently large increase in the exchange rate that Ontario exporters could be hurt
- The reduction in Ontario GDP in the scenario could be larger than the estimated benefits.



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# Summary

- The claims about the positive economic impacts on Ontario should be treated with caution.
- Short-term economic impacts are small, while long-term impacts are speculative.
- Potential wider long-term economic costs that were not considered and could greatly affect the impact of the project on Ontario.



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Thank you

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