



# Pipelines, Energy East and Ontario

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**Mowat ENERGY**  
THE MOWAT CENTRE'S ENERGY RESEARCH HUB

# 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.

# Our research

- Mowat Centre has looked into Ontario's stake in pipelines.
  - *The Politics of Pipelines: Ontario's Stake in Canada's Pipeline Debate* (October 2014)
  - *A Review of the Economic Impact of Energy East on Ontario* (February 2015, commissioned by the OEB)
- The Mowat Centre is not against or for the development of any pipeline.
- Our research has looked into what Ontario's interests are, and how the province could respond.

# Ontario's stake

- Ontario is generally supportive of oil and gas sector (including pipeline construction).
- Development of Canada's resources has been crucial to our economic development.
- Ontario receives explicit economic benefits from oil sands in manufacturing, professional services and the finance sector.
- But Ontario's (and other non-hydrocarbon provinces') interests are more complex than those of Alberta.
- Need for reciprocity in risk/benefit: eg, Ontario and other provinces have been carrying the burden of GHG reductions (changing?).

# Economic impact analysis

- We were asked by the OEB to review the short- and long-term economic impact of the Energy East project in Ontario.
- We assessed the three existing economic impact analyses (by the Conference Board, Deloitte and CERI).
- We analyzed potential long-term economic costs and risks that may not be captured in the three economic analyses.
- We did not assess whether the pipeline is in the short or long-term interests of Canada, or any factor outside economics.

# Estimated benefits in Ontario

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

Source: Conference Board of Canada. Based on 26 years (20 years operational, 6 years development/construction).

# Overall findings

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

- While some economic benefits are expected, estimates in the economic impact analyses are likely overstated.
  - I/O models
  - Assumptions
- The economic impact analyses only show benefits, and do not consider other costs or broader policy issues.

# Input /Output (I/O) models

- All three economic analyses used the same model to estimate their results (I/O model).
- 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 infrastructure projects, results offer projections only about the potential impacts of the spending, not the costs.



# Assumptions in economic analyses that could be questioned

- Analyses use 2009 data (latest available at the time ) 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 and to measure a project's risk. If discount rates were used the projected benefits would be lower.

# Discount rate sensitivity

To show possible effect of discount rates, below shows total benefits to Ontario under different discount rates. (Numbers from reports are in bold and italics. All are in 2013 dollars.)

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

# Local benefits

Local benefits, potentially important locally, generally small.

<b>Conversion</b> Northern Ontario	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.
	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.
<b>New build</b> Eastern Ontario	An estimated \$10.5 million a year in new property tax.
	If this additional property tax were equally shared among the five communities, each would receive an additional \$2.1 million.
<b>Employment</b>	During two-year construction, employment will peak at 0.7-1.0% of labour force in the region. Many will be temporary workers, and local impact unknown.
	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.

# 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, such as with carbon pricing or stranded assets.
- Possible disruptions to energy flows.
- Possible appreciation in the Canadian-U.S. exchange rate.

# Potential effect of currency appreciation

Report	Conference Board		Deloitte		CERI	
<b>Project lifespan</b>	26 years		46 years		28 years	
<b>Discount rate (%)</b>	2.50	5.0	2.46	5.0	2.5	5.0
<b>Benefits from impact analyses</b>	\$13.8	\$10.3	\$13.0	\$8.5	\$8.8	\$6.8
<b>GDP reduction</b>	-\$38.6	-\$26.3	-\$86.1	-\$48.1	-\$56.1	-\$35.5
<b>Total</b>	-\$24.9	-\$16.0	-\$73.0	-\$39.6	-\$47.3	-\$28.7

# Summary

- Ontario has a stake in the conversation, and has generally been supportive. Most Ontarians are probably likewise.
- But there needs to be an understanding and discussion of the risks and benefits, and how they can be equitably shared.
- While Ontario may benefit in the short-term, the claims about the large positive economic benefits for Ontario should be treated with caution.

# Thank you

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