



Contrary to Ontario's Opinion, Clean Technology Is Still Booming

Description

The province of Ontario has been in the news lately regarding the cancellation of its Large Renewables Procurement process (LRP II). It also made headlines due to a \$28 million payment to U.S.-based Windstream Energy LLC to compensate scrubbing an offshore wind farm planned for Lake Ontario.

To its credit, the province still generates about 36% of its energy from wind, hydro, solar, and biomass sources. Unfortunately, when its hydro, wind, and solar facilities are operating at peak capacity, there is often an oversupply of power, leading to negative pricing hours for generators.

This should affect the revenues of generators; however, most have secured long-term contracts for amounts ranging from \$150-500 per megawatt (MW) hour. This results in the Ontario Power Authority or Independent System Operator making up the difference and passing a significant portion of the cost to taxpayers.

The first phase of its LRP II process that ended in April 2016 awarded 454 MW worth of contracts valued at approximately \$1 billion. The goal of LRP II was to acquire another 930 MW of energy from renewable sources. Doing the quick math, this would grow its renewable load by about 7%, and if it held one of these processes annually for the next seven years, it could meet its target of 50% renewable generation by 2025.

Instead, the province negotiated a deal with Hydro Quebec to fill this void. The agreement is expected to save Ontario's IESO about \$70 million over seven years. The two government has cited "commercial sensitivities" for refusing to say how much Ontario will pay for the electricity. However, Montreal newspaper *La Presse* reports the agreement is worth \$1 billion and calculates Ontario will pay five cents a kilowatt hour for the electricity.

Business as usual for clean technology companies

Despite these recent moves by the Ontario government, the clean technology industry is still booming. The S&P TSX Renewable Energy and Clean technology index up 22% year over year, ranking third behind gold and materials indexes. It ranks second over the last six months with a gain of 11%.

Two companies leading the way are **Innergex Renewable Energy Inc.** ([TSX:INE](#)) and **Pattern Energy Group Inc.** ([TSX:PEG](#))([NASDAQ:PEGI](#)). Over the last two weeks of trading, both companies have led their peers with gains of almost 5%.

Pattern Energy has a portfolio of 18 wind power facilities with a total interest of 2,644 MW in the United States, Canada, and Chile. It announced this month that it acquired a 50% interest in a 179 MW wind power facility in Ontario. The facility operates under a 20-year power-purchase agreement with the Independent System Operator in Ontario. The company issued another \$355 million worth of shares in August to fund its development pipeline.

Innergex was named a qualified applicant in the government's first phase of the Ontario's LRP process; however, it was not awarded a contract. The company has moved on and has been actively growing its portfolio in Canada and Europe. Most recently, its 40.6 MW Big Silver Creek hydroelectric plant in British Columbia began operating under a 40-year fixed-price power-purchase agreement with BC Hydro.

One company that will definitively prevail in Ontario is **Hydro One Limited** ([TSX:H](#)). The company now owns 98% of Ontario's transmission capacity following its acquisition of Great Lakes Power Transmission this year for \$373 million. Electricity generators must pay transmission costs to connect to the grid on top of any charges required to deliver its power to market.

Focus on the fundamentals

The bottom line is that both Pattern Energy and Innergex are supported by long-term contracted revenues in the form of power-purchase agreements. This enables the companies to apply high leverage to these projects and deploy capital to other opportunities.

Considering the federal government's minimum price on carbon (starting at \$10 a tonne in 2018 and increasing annually by \$10 until reaching \$50 a tonne in 2022), the provinces will continue with their objectives of reducing carbon-intensive generation.

Look for these companies to be successful proponents of some of these contracts.

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1. [TSX:H](#) (Hydro One Limited)
2. [TSX:INE](#) (Innergex Renewable Energy)

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