

ECONOMIC IMPACTS



Overview

» 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. (www.mowatcentre.ca)

Mowat Centre
ONTARIO'S VOICE ON PUBLIC POLICY

- » We were asked to review the short and long term economic impacts of the Energy East project in Ontario.
- » For this we looked at the economic impact statement submitted by TransCanada and claims made by the company.

Preliminary Assessment

1. Economic benefits estimated by TransCanada are likely inflated.

The commonly-used technique of Input/Output modelling was used to estimate the economic impact of the Energy East project on Ontario. However, these models:

- » Assume that past or present scenarios accurately predict the future, and do not account for any changes in the economy over the lifespan of the project.
- » Assume large indirect benefits for the economy. They do this by applying multipliers to the direct project spending. A multiplier

is an estimate of how the spending on the project will affect the rest of the economy. Multipliers tend to inflate indirect benefits because they do not account for shortages in labour or for alternate use of the resources.

- » Do not use discount rates in the calculations to account for future uncertainty and costs. A discount rate is used to value future costs and benefits in today's dollars. If a discount rate were used in the economic modelling, the projected benefits would be significantly lower.

As a result, the estimated benefits should be seen merely as illustrations of potential benefits.



Ontario

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

OEB Energy East Consultation & Review

ECONOMIC IMPACTS (CONTINUED)



2. The results from the economic models only show benefit of the spending, and do not consider other costs, broader policy issues, or externalities.

Some things not considered include:

- » The introduction of some form of carbon pricing could change the economics of the pipeline and its economic impacts
- » Significant changes in oil exports that could arise from the project could impact Canada-U.S. exchange rates and Ontario exports.
- » A lower demand for fossil fuels globally could reduce the pipeline's operational life and the benefits to Ontario.

Due to the uncertainty around many broader policy questions that will materially impact the economics of the project, any estimates of possible economic impacts in Ontario should be treated with a high degree of caution.

The economic impact of the project in Ontario should not be treated as a significant factor when considering the merits of Energy East.

3. Local benefits are expected to be small, especially on the section in northern Ontario that is converted.

The Energy East project will provide local economic benefits to the communities it passes through in two ways:

- » municipal taxes paid by TransCanada (in addition to the provincial and federal taxes), and
- » employment opportunities in construction and operations.

There is not enough information available in TransCanada's submission to estimate the impact of the project on any one community or sub-region, but local benefits are likely to be small. This is especially true in northern Ontario, where the pipeline will be converted and not newly built, and as a result only new construction – such as a pump station – would lead to an increase in municipal property tax revenue.



Ontario

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

OEB Energy East Consultation & Review

ECONOMIC IMPACTS (CONTINUED)



Municipal Tax	Northern Ontario (conversion)	<ul style="list-style-type: none"> » 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 what it currently pays. <hr/> <ul style="list-style-type: none"> » 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. <hr/> <ul style="list-style-type: none"> » City of Dryden collects \$13.8 million in property tax annually. A new pump station would hence add 1% in property tax revenue.
	Eastern Ontario (new build)	<ul style="list-style-type: none"> » For the newly built section, TransCanada estimates that it will pay \$10.5 million a year in new property tax. <hr/> <ul style="list-style-type: none"> » If this additional property tax were equally shared among the five communities, each would receive an additional \$2.1 million. <hr/> <ul style="list-style-type: none"> » City of Cornwall receives \$57 million in property tax annually. The pipeline would increase annual property tax revenue by 3.7%.
Employment	Development & Construction	<ul style="list-style-type: none"> » Peak years for construction employment will be between 2016–2017, and will employ 0.7–1.0% of labour force in the region. <hr/> <ul style="list-style-type: none"> » If this additional property tax were equally shared among the five communities, each would receive an additional \$2.1 million.
	Operations	<ul style="list-style-type: none"> » 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.



Ontario

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

OEB Energy East Consultation & Review