



Ontario's power-price crisis—how did it happen and who got hurt

<https://www.fraserinstitute.org/print/12035>

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Before something can be fixed, one must understand how it got broken. Researchers at the Fraser Institute have spent more than a decade looking at exactly that question regarding Ontario electricity markets. Here's what we [found \(https://www.fraserinstitute.org/studies/understanding-the-changes-in-ontarios-electricity-markets-and-their-effects\)](https://www.fraserinstitute.org/studies/understanding-the-changes-in-ontarios-electricity-markets-and-their-effects).

Ontario's power troubles began after the Ontario government began phasing-out coal power generation in 2005. But electricity prices really took off in 2009 when the government launched its Green Energy Act, which features a program to provide long-term guaranteed contracts to generators with renewable sources (wind, solar, etc.) at a fixed, above-market price. To pay for those commitments, and to cover the cost of conservation programs in the Act, Ontario levied a new surcharge on electricity called the "Global Adjustment."

Between 2008 and 2016, the Global Adjustment grew more than 70 per cent, causing a drastic increase in electricity prices. The high cost associated with aggressively promoting renewable sources is particularly troubling given the relatively small amount of electricity generated by these sources. In 2016, renewable sources generated less than 7 per cent of electricity in Ontario while accounting for almost 30 per cent of the Global Adjustment.

The Ontario government tried to justify the coal phase-out with claims that it would yield large environmental and health benefits for the province by reducing conventional air pollution (reducing greenhouse gas emissions was not the original rationale for the Act). But subsequent research showed that shuttering these coal power plants had very little effect on air pollution. In fact, had the province simply continued with retrofits to the coal plants then underway, the environmental benefits of the shift to renewables could have been achieved at one-tenth the cost.

Rising costs in Ontario are partly due to imbalances between supply and demand of electricity. Between 2005 and 2015, the province increased its renewable capacity to facilitate the coal phase-out. However, since renewable sources are not as reliable as traditional sources, the government contracted for more (and more expensive) natural gas capacity as a back-up. Meanwhile, the demand for electricity declined, partly due to rising electricity costs. The increase in the total installed capacity, coupled with lower electricity demand, has resulted in excess production being exported to other jurisdictions (including some U.S. states) at a significant loss.

So what's been the result of all this "green" policy?

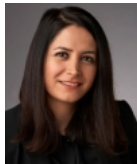
Ontario now has the fastest-growing electricity costs in Canada and among the highest in North America. And those rising costs are hitting average Ontarians in the wallet. Between 2008 and 2016, Ontario's residential electricity costs (that's your home hydro bill) increased by 71 per cent, far outpacing the 34 per cent average growth in electricity prices nationwide. Consequently, in 2016 Toronto residents paid \$60 more per month than the average Canadian for electricity.

Ontario's skyrocketing electricity rates also hit the province's industrial sector. Between 2010 and 2016, large industrial users in Toronto and Ottawa experienced cost spikes of 53 per cent and 46 per cent respectively, compared to a 14 per cent average increase for the rest of Canada. In 2016, large industrial users in Toronto paid almost three times more than consumers in Montreal and Calgary and almost twice the prices paid by large consumers in Vancouver. While some select large industrial consumers received rate reductions, they still paid higher rates compared to large electricity users in Quebec, Alberta and British Columbia.

The result? Thanks to rising costs and diminished competitiveness, compared to multiple comparable American and Canadian jurisdictions, Ontario has seen the steepest decline in its manufacturing sector over the past decade. Astonishingly, Ontario's high electricity prices are responsible for approximately 75,000 job losses (<https://www.fraserinstitute.org/studies/rising-electricity-costs-and-declining-employment-in-ontarios-manufacturing-sector>) in the manufacturing sector from 2008 to 2015.

So, now that we know how things were broken, it's time to start fixing them. So far, the Wynne government has mostly employed sleight of hand to hide electricity costs from consumers and shift costs to future generations. But given the critically important role affordable reliable energy plays in economic growth and prosperity, Queen's Park must get serious and pursue meaningful policy reforms aimed at lowering electricity costs for all Ontarians.

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