EXECUTIVE SUMMARY

FRASER INSTITUTE

The Ontario Government's Electricity Policies 2018–2019

How They Are Failing and How to Fix Them

by Elmira Aliakbari and Jairo Yunis

Policy makers in Ontario have made poor policy decisions in recent years, resulting in rising electricity costs in the province. Ontario's rising electricity costs have been, in part, blamed on the province 's 2009 Green Energy Act (GEA). The centerpiece of the act included a schedule of subsidized contracts to purchase electricity called Feed-in-Tariffs (FITs). These provided long-term guarantees of above-market rates to generators of renewable sources (wind, solar, bioenergy, and some hydroelectric). To fund these commitments, as well as the cost of other non-market interventions such as conservation programs, Ontario levied a surcharge on electricity called the Global Adjustment (GA). Over the past decade, the GA has soared, resulting in a drastic increase in the cost of electriciy in Ontario.

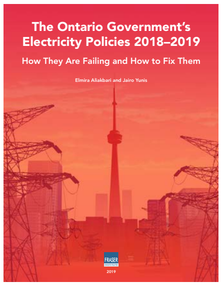
Ontario's new government, led by Premier Doug Ford, was elected in June 2018 after campaigning on a promise to reduce electricity rates by 12%—on top of the 25% rate reduction introduced by the former provincial government. To fulfill this promise, the new provincial government has implemented a series of measures including cancelling 758 early-stage renewable power contracts, repealing the Green Energy Act, eliminating a number of conservation programs, and reforming the administration of the so-called Fair Hydro Plan—a plan that increases provincial debt to reduce residential electricity bills in the short-term—introduced by the former government.

However, despite the measures implemented by the new provincial government, the primary driver of rising electricity costs in the province—the Global Adjustment—continues to rise. Specifically, between June 2018 (when the new government was elected) and June 2019, the real GA increased by 13%, from 12.1¢/kWh in June 2018 to 13.7¢/kWh in June 2019. In addition, instead of receiving the reductions in electricity prices that were promised by the new government, almost all types of consumers in Ontario have faced hikes in the price of electricity over the past year. Specifically, electricity prices for residential and small-power consumers (such as small businesses) in Toronto increased 5% and 6%, respectively, between April 2018 and April 2019. Large businesses and industries have also suffered from rising electricity costs. For example, over the past year, large-power consumers in Ottawa faced a 7% increase in their electricity costs and medium-power users, an increase of 12%. In Toronto over the same period, electricity costs rose by 10% for large-power consumers and by 15% for medium-power users.

The analysis also shows that Ontarians are still paying far more for electricity than their fellow Canadians. Despite the debt-funded rate-relief structure (the so-called Fair Hydro Plan) put in place by the former government and continued by the new government, residential consumers in the province, on average, are still paying 22% more for their electricity than the rest of Canada. Large businesses and industries in Ontario are also suffering from high electricity prices by paying the highest electricity rates in the country, significantly exceeding those in some other major cities. Specifically, in Toronto and Ottawa, the average electricity price for large-power industrial consumers in 2019 was 13.23¢/kWh and 12.56¢/kWh, respectively, whereas the same type of consumer in Montreal and Vancouver paid only 5.66¢/kWh and

6.39¢/kWh. In addition, in 2019 the average electricity rate for large industrial consumers in Canada outside Ontario was only 7.82¢/kWh, with the result that large-power industrial consumers in Ontario are paying almost 65% more than the cost to the same type of consumers in the rest of Canada.

Overall, the measures implemented by the Ontario government since June 2018 have not reduced electricity costs, which have instead continued to rise. Instead of borrowing money to reduce the growth of current residential electricity rates, and thereby increasing the annual deficit and net debt of the province, the government must find ways to reduce the GA surcharge. Breaking down the GA into its components reveals that payments to renewable energy sources are still the largest single component of the GA, accounting for about 34% of the cost. Therefore, as we have recommended previously, the new Ontario government should use legislative measures to cancel, or renegotiate, Ontario's funding commitments to renewable energy sources under the FIT contracts. There is a particularly compelling case for this in regard to solar and bioenergy generators as these payments account for 15% of the GA, yet they only generate 3% of Ontario's electricity.



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