

Understanding the Changes in Ontario's Electricity Markets and Their Effects

Contributing Editors: Elmira Aliakbari, Kenneth Green, Ross McKittrick, and Ashley Stedman

Energy consumption is a driver of economic growth. Policymakers in Ontario have made poor policy decisions, resulting in rising electricity costs, lower employment, and lower competitiveness, while achieving minimal environmental benefits. This publication presents a series of collected essays that critique the reasoning behind Ontario's electricity policy changes and spell out the long term consequences.

Ontario's main policy shift began around 2005 when the government made a decision to begin phasing out coal. The next major step occurred in 2009 when the government launched its Green Energy Act (GEA). The centerpiece of the GEA was a Feed-In-Tariff program, which provides long-term guaranteed contracts to generators with renewable sources (wind, solar, etc.) at a fixed price above market rates. In order to fund these commitments, as well as the cost of conservation programs, Ontario levied a non-market surcharge on electricity called the Global Adjustment (GA). Between 2008 and 2016, the GA grew more than 70 percent, 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 percent of electricity in Ontario while accounting for almost 30 percent of the GA.

Ontario's decision to phase out coal contributed to rising electricity costs in the province, a decision justified at the time with claims that it would yield large environmental and

health benefits. The subsequent research showed that shuttering these power plants had very little effect on air pollution. 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.

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The issue of rising electricity costs in Ontario can be partly attributed to the imbalances between supply and demand of electricity. Between 2005 and 2015, the province decided to increase 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 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 jurisdiction at a significant loss.

As a result of these structural shifts and poor governance, electricity costs have risen substantially in Ontario. Ontario now has the fastest growing electricity costs in the country and among the highest in North America. Between 2008 and 2016, Ontario's residential electricity costs increased by 71 percent, far outpacing the 34 percent average growth in electricity prices across Canada. In 2016, Toronto residents paid \$60 more per month than the average Canadian for electricity.

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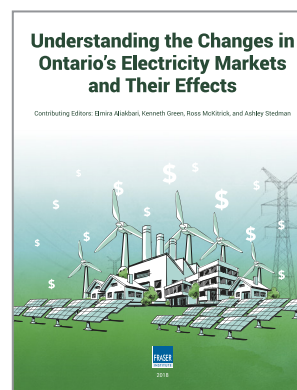
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Ontario's skyrocketing electricity rates also apply to the province's industrial sector. Between 2010 and 2016, large industrial users in Toronto and Ottawa experienced cost spikes of 53 percent and 46 percent, respectively, while the

average increase in electric costs for the rest of Canada was only 14 percent. In 2016, large industrial users paid almost three times more than consumers in Montreal and Calgary and almost twice the prices paid by large consumers in Vancouver. Some select large industrial consumers were granted rate reductions but still paid higher rates compared to large electricity users in Quebec, Alberta, and British Columbia.

Soaring electricity costs in Ontario have placed a significant financial burden on the manufacturing sector and hampered its competitiveness. Compared to multiple comparable American and Canadian jurisdictions, Ontario has exhibited the most substantial decline in its manufacturing sector over the past decade. Overall, Ontario's high electricity prices are responsible for approximately 75,000 job losses in the manufacturing sector from 2008 to 2015.

Given the critically important role that affordable energy plays in economic growth and prosperity, the authors urge the Ontario government to pursue meaningful policy reforms aimed at lowering electricity costs for all Ontarians.



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