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FINANCIAL POST

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Ontario's job killer: Business sounds alarm over soaring electricity prices

By Ross McKittrick and Tom Adams, Special to Financial Post

The Ontario Chamber of Commerce this week released the findings of an unprecedented consultation with its members and the results are painfully clear:...

Business group sounds alarm over soaring electricity prices, foolish policies

The Ontario Chamber of Commerce this week released the findings of an unprecedented consultation with its members and the results are painfully clear: soaring electricity prices are killing business in Ontario. One in 20 Ontario businesses now expect to shut their doors in the next five years due to electricity costs, and nearly 40 per cent report that electricity costs have already forced them to delay or cancel investment decisions.

The Chamber acknowledges that the larger policy picture from Queen's Park is grim, with plans for cap-and-trade, higher minimum wages, rising workplace safety premiums and a new government-run pension system. But their report, *Empowering Ontario*¹, focuses above all on soaring electricity costs, a problem unique to Ontario that is directly traceable to a decade of foolish policy decisions.

The Chamber is to be applauded for taking on this issue. Many Ontario businesses have tried to shield themselves by seeking beggar-thy-neighbour gimmicks that merely shift their costs onto others, resulting in a less efficient and transparent pricing system. For instance the Chamber slams the Class A/B rate split that benefits large consumers by redirecting some of their costs onto households and small businesses.

PRICE OF POWER

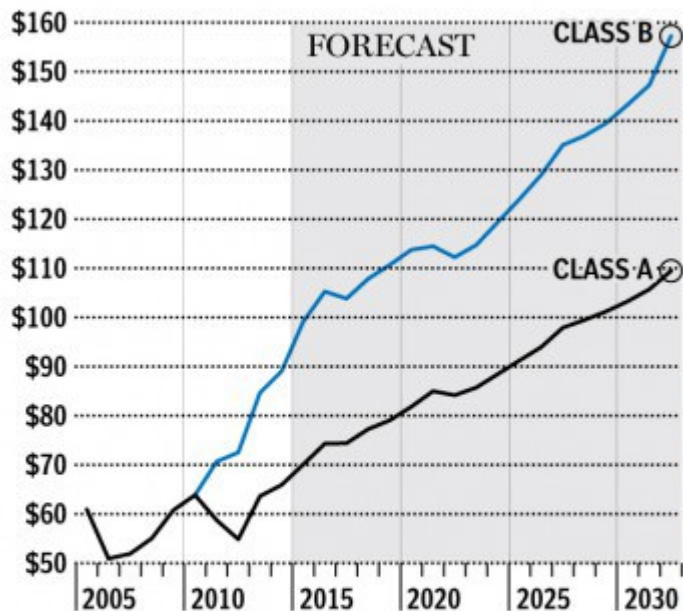
Ontarians pay the highest electricity rates in North America

2013 INDUSTRIAL ELECTRICITY RATES, BY PROVINCE AND U.S. STATE CENTS PER KILOWATT HOUR

Ontario, Class B	10.93
Ontario, Class A*	9.02
Alberta	8.94
New York	8.10
New England	7.83
New Brunswick	6.53
Pennsylvania, New Jersey, Maryland	5.18
British Columbia	5.00
Quebec	4.64
Texas	4.19
Manitoba	3.80
U.S. midwest	3.77

*Transmission-connected, does not include distribution delivery charges.

AVERAGE ESTIMATED ONTARIO INDUSTRIAL ENERGY COSTS DOLLARS PER MEGAWATT HOUR



Class A: Industrial and commercial users with an average hourly peak demand of three megawatt or higher.

Class B: Businesses or organizations with a peak demand of over 50 kilowatt (KW) but less than three MW.

SOURCE: ONTARIO CHAMBER OF COMMERCE,
ASSOCIATION OF MAJOR POWER CONSUMERS
OF ONTARIO

JONATHON RIVAULT / NATIONAL POST

Perhaps Ontario business leaders are finally realizing that moving their deck chairs to the high side of a sinking ship is not a long-term solution. With the Ontario Liberal government this week preening on the global climate stage at the Climate Summit of the Americas in Toronto, doubling down on its costly green agenda, the business community needs to face up to the bigger

picture.

Based partly on a 2014 study we did for the Fraser Institute, the report explains that Ontario levies a (soaring) non-market surcharge on electricity called the Global Adjustment (GA), which funds above-market revenue commitments to power generators and the cost of conservation programs. As they correctly explain, the upward march of the GA began with the decision to phase out coal-fired power generation and phase in renewables using the costly Feed-in-Tariff (FIT) subsidy. The problem has been exacerbated by a capacity mismatch that leads to excess production being exported at a loss year-round.

The Chamber reviewed 10 possible solutions and ranked them in terms of potential to mitigate the mess. While we agree with many points in the Chamber's analysis, there are some important options they left out, and they overstate the relevance of others.

In their critique of a proposal to increase the peak-to-off-peak ratio of time-of-use (TOU) pricing the Chamber correctly alludes to the potential for unfairness and inefficiency when marginal prices for consumers do not reflect actual marginal costs of generation.

The Chamber also rightly downplays the potential role of hydro purchases from Quebec as a silver bullet for replacing nuclear down the road. The infrastructure required for large-scale imports, and Quebec's constraints in the winter months, make it unlikely this is a reliable long-term strategy for Ontario.

The Chamber unfortunately dismisses the possibility of cancelling FIT contracts, mistakenly believing that to be illegal. As Bruce Parry has explained in a report published by the Fraser Institute last year, the government that signed the odious contracts can also pass legislation to nullify them, thus overcoming the legal obstacle to their cancellation.

While the Chamber accurately charts the coal phaseout as the headwaters from which the river of bad policy flowed, they failed to follow their own logic and call for a reversal of the error. Instead they dismissed the option "given its environmental impacts." In saying this they have unfortunately bought into, and thus perpetuate, a myth promoted by the government that the Lambton and Nanticoke coal-fired power plants had large effects on Ontario air quality. The government's own meteorological simulations in 2005 showed this was untrue. Indeed a simple glance at Ontario's emissions data showed it could not possibly make sense.

The Environment Canada emissions inventory² for Ontario shows that in 2008, one year before the introduction of the Green Energy Act, coal-fired power plants emitted 4,070 tonnes of particulates, one-tenth of one per cent of the 3.8 million tonnes emitted in the province that year.

Counting only ultra-fine particulates the coal plants were responsible for four-tenths of one per cent. That was down slightly from the six-tenths of one per cent they emitted in 2005, the year the province began attributing over 300 deaths annually to coal plant emissions. On this logic, their model would imply that air pollution from all other sources kills about 50,000 people. Since there are only about 90,000 annual deaths in Ontario from all causes, it is remarkable nobody noticed the dead bodies in the streets.

The coal death toll claim is absurd but it illustrates the government's warped propaganda campaign that derailed sensible power planning discussions. It is understandable that the Chamber shied away from the coal option, so toxic is the demagoguery even today. But Ontario is in a dire situation and it won't be remedied until the falsehoods that got us here are refuted, one by one, including the myth of coal as mass murder.

With the Canadian economy inching towards recession, the Chamber has burst the bubble of official silence around Ontario's electricity policy disaster. They have exposed the link between rising power costs and provincial economic stagnation. This is a major policy disaster and it will require a major course correction to fix it.

Ross McKittrick is a Professor of Economics at the University of Guelph and a Senior Fellow of the Fraser Institute. Tom Adams is an independent electricity system researcher. Their 2013 report "What Goes Up: Ontario's Soaring Electricity Prices and How to Bring the Down" was published by the Fraser Institute.

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