

Power failure

Terence Corcoran, Financial Post · Friday, Oct. 8, 2010



The Swedish retail giant IKEA announced Thursday it will invest \$4.6-million to install 3,790 solar panels on three Toronto area stores, giving IKEA the electric-power-producing capacity of 960,000 kilowatt hours (kWh) per year. According to IKEA, that's enough electricity to power 100 homes. Amazing development. Even more amazing is the economics of this project. Under the Ontario government's feed-in-tariff solar power scheme, IKEA will receive 71.3¢ for each kilowatt of power produced, which works out to about \$6,800 a year for each of the 100 hypothetical homes. Since the average Toronto home currently pays about \$1,200 for the same quantity of electricity, that implies that IKEA is being overpaid by \$5,400 per home equivalent.

Welcome to the wonderful world of green economics and the magical business of carbon emission reduction. Each year, IKEA will receive \$684,408 under Premier Dalton McGuinty's green energy monster--for power that today retails for about \$115,000. At that rate, IKEA will recoup \$4.6-million in less than seven years--not bad for an investment that can be amortized over 20.

No wonder solar power is such a hot industry. No wonder, too, that the province of Ontario is in a headlong rush into a likely economic crisis brought on skyrocketing electricity prices. To make up the money paid to IKEA to promote itself as a carbon-free zone, Ontario consumers and industries are on their way to experiencing the highest electricity rates in North America, if not most of the world.

The government's regulator, the Ontario Energy Board, has prepared secret forecasts of how much Ontario consumers are going to have to pay for electricity over the next five years. The government won't allow the report to be released. The next best estimate comes from Agency Energy Advisors Inc., in a study it did for the Canadian Manufacturers and Exporters group. Residential rates are expected to jump by 60% between 2010 and 2015. Industrial customers will be looking at a 55% increase. (See graphic.)

Going back to 2003, based on numbers dug up by consultant Tom Adams, the price of residential electricity in Ontario hovered around 8.5¢ a kWh in 2003 -- the first year of

the McGuinty Liberal regime. By 2015, Aegency Energy estimates the price will be up to 21¢, an increase of 135%. Doubling the price of electricity in a decade is no way to spur growth and investment. In this age of global economic competition IKEA may end up with fewer sales of its Billy bookshelves in Toronto because its customers will be bogged down with soaring power bills and a sliding economy.

Almost all of these increases are due to green energy activism brought on by George Smitherman, the former Ontario energy minister now running for mayor of Toronto on the claim that his Green Energy Act is not responsible for rising prices.

There are probably some holes that can be picked in the Aegency Energy numbers in the graph, but they are not likely to make that much of a difference. If the OEB has better numbers that disprove the Aegency report, then let's see them. In the meantime, Aegency is all we have and their report was an eye-opener when it was released back in August -- for everybody except Premier McGuinty, his Energy Minister, green activists and Mr. Smitherman.

Mr. Smitherman is the godfather of the Ontario Green Energy Act and the feed-in-tariff scheme that will transfer billions of dollars out of consumer pockets and into the hands of subsidized solar and wind power producers and government corporations. He likes to blame rising electricity prices on the province's new HST and the failure of previous governments to maintain infrastructure. The numbers in the Aegency Energy report make it clear that Mr. Smitherman is running on a dead battery.

The full scale of Ontario's green energy spending extravaganza is hard to convey in a few words, but here's a list of the increases in dollar spending Ontario's electricity consumers will have to bear during 2015, in millions of dollars:

Feed-in-tariff \$3,848

Renewable energy \$330

Renewables -- other \$96

Bruce Power \$74

Bruce Power new \$461

Ontario Power Generation \$237

Natural gas \$192

Non-utility generation \$170

Conservation \$267

Transmission \$1,012

Distribution (non-green) \$293

Distribution (green energy) \$759

TOTAL 2015 COSTS \$7,739

Each line item is a story in itself, although nothing beats the feed-in tariff as a cost to consumers and industry. At \$3.8-billion in 2015 alone, it's the price of keeping IKEA and the other solar and wind producers in green stuff. To get solar and wind to consumers, and fulfill other Green Energy Act requirements, will also force the province's transmission and distribution companies to increase spending by another \$1-billion.

All those costs and spending (which total more than \$21-billion between 2010 and 2015) will add little to Ontario's electricity inventory. Through that time period, total electricity demand in Ontario is expected to remain relatively flat. By 2015, in other words, Ontarians will likely be consuming the same amount of electricity as they are today but paying twice as much as they were in 2003.

There is even a prospect that Ontario will generate additional surplus electricity that will have to be exported to the United States, essentially subsidizing U.S. consumption. Tom Adams adds that the latest U.S. electricity forecasts suggest U. S prices will remain stable. Price are lower this year and are expected to increase next year by 2.4%. Ontario, meanwhile, is looking at average gains of 9.7%. "We're heading toward European prices," he said.

The supposed objective of all this is to reduce carbon emissions and offset the mandated closure of Ontario's coal plants. But the Green Energy Act reaches way beyond offsetting coal. It aims to reduce Ontario carbon emissions, although no targets have been set.

According to Aegency Energy's calculations, the cost of power produced by IKEA solar panels at 71.3¢ will reduce carbon emissions at a cost of \$1,384 a tonne if there is a corresponding reduction in Ontario's need for gas-fired electricity production. That number compares with official national and international carbon tax ideas involving maybe \$25 a tonne or, at the extreme, \$200 a tonne.

Average per-capita carbon emissions in Ontario are said to be about 15 tonnes. The government's schemes suggest that reducing Ontario carbon emissions by say 20% to 12 tonnes would cost \$5,000 per person or upwards of \$15,000 per household per year. That's a lot of Billy shelving.