

# Ontario Has a Power Problem.

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Ontario has a power problem.

A strategy to subsidize the province's nascent green energy industry is starting to sting businesses and many households that find themselves paying the biggest markups on electricity pricing in the country.

Even as electricity demand - and market prices - dropped last year with the [global economic downturn](#), electricity bills have risen steadily on the back of generous contracts signed by the province's power planning agency. Now, the government of Premier Dalton McGuinty is preparing for a looming political backlash.

What's at stake is an industrial strategy that's on a collision course with a century-old policy of delivering electricity to consumers at the lowest possible cost. After the loss of hundreds of thousands of jobs in the manufacturing heartland, Mr. McGuinty vowed to create more than 50,000 new ones through the Green Energy Act. But he is building this new sector - and burnishing his green credentials - by ratcheting up electricity costs.

The average market price for electricity in Ontario is at its lowest level since the market was opened up in 2002. It was 3.3 cents a kilowatt hour yesterday, compared with a record high average of 9.97 cents in September, 2005. But customers are not reaping the benefits of lower prices because the government is recovering the cost of new projects from power users.

The government is luring green-energy investors with the promise of generous long-term contracts that include a guaranteed revenue stream. Every time a new deal is inked with a gas-fired plant, a wind farm or solar-panel manufacturer, the costs go up for customers. During several months last year, rates for large industrial users jumped nearly 20 per cent. The question emerging is whether this is politically sustainable.

The government is sitting on a "political time bomb," said Toronto energy lawyer Peter Murphy. "While renewable energy is a great thing for the environment, it's also expensive."

Mr. McGuinty's government began eyeing the development of new, clean energy sources in 2006, when the province was facing a shortage of electricity. He intrinsically linked the province's economic fortunes to combatting [climate change](#), saying it is not a matter of choosing between prosperity and the environment.

Former energy minister George Smitherman was the driving force behind the strategy, pushing renewable energy projects with little regard for cost, according to industry sources. He resigned to run for mayor of Toronto, leaving his successor, Gerry Phillips, to deal with the fallout from that strategy.

Mr. Phillips is acutely aware that electricity prices are a growing issue.

"We are not as clear as we need to be about the price of the production of electricity," he said in an interview.

Ontario does not have the highest electricity costs on the continent, but it stands out for the gap between the market price of power and the price charged to consumers. Toronto ranked in the middle of the pack among North American cities, according to a study of consumer prices done by Hydro-Québec last April. But industry observers say prices will increase substantially in Ontario over the next two years as the cost of higher priced renewable energy flows through to consumers.

The Ontario Power Authority, the government's planning arm, says it managed 47 large-scale electricity supply contracts worth a total of \$14.1-billion last year. Contract holders receive a fixed price over 20 years for the electricity they produce - 13.5 cents a kilowatt hour for on-shore wind farms and up to 80.2 cents for solar power. While wind and solar make up only a small portion of electricity supply today, the rates are well above the average of 4.5 cents that government-owned Ontario Power Generation receives for most of its electricity output.

"Somebody has to pay the price of subsidizing an energy policy that this government seems bent on pursuing for largely political reasons as opposed to energy supply," said Ontario Progressive Conservative energy critic John Yakabuski.

Electricity consumers pay for these contracts through what is called a global adjustment - which covers the difference between the market price for electricity and the rates paid to companies under the guaranteed revenue contracts. As the market price falls, the global adjustment rises. The global adjustment averaged 2.91 cents a kilowatt hour in 2009, on top of 3.16 cents for the electricity itself.

Adam White, president of the Association of Major Power Consumers in Ontario, said the situation is not sustainable because it will leave companies paying higher rates than competitors in other jurisdictions.

For most residential consumers, the cost of the global adjustment is hidden because it is rolled into the electricity rate set by the province's energy regulator, one that has risen only modestly in recent years.

But homeowners who signed contracts with electricity retailers are getting hit hard. Retailers are now passing on the global adjustment, which is not included in the contracted fixed rate for electricity. A typical customer who used 1,000 kilowatts of power in December would have paid an extra \$38