

High cost of renewables—a made-in-Ontario problem

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A recent CBC News [article](#)¹ discussed how market-based bidding structures have pushed down the electricity costs generated by renewable sources in Mexico and other places around the world. In Mexico’s case, the Italian company ENEL signed a bid to the Mexican government agency to make electricity from wind power at 1.7 cents per kilowatt hour (a common unit for measuring power).

How does Mexico’s system compare to Ontario’s approach towards renewables (wind, solar, etc.)?

Although there are significant differences between these jurisdictions, the article [notes](#)² that Ontario’s aggressive pursuit of renewables “was not based on the lowest cost.” In contrast, the Ontario government attempted to create a wind and solar industry during an industrial recession by offering expensive long-term contracts. As noted [previously](#)³, these long-term guaranteed contracts for renewable energy generation were poorly structured and have increased electricity costs more than necessary in Ontario.

So, how high are the rates paid to renewable generators in Ontario?

Studies [show](#)⁴ between November 2016 and October 2017, the rate paid to wind generators in Ontario was 14 cents per kWh, which is more than eight times the rate bid by wind generators in Mexico. The rates paid to solar generators over the same period was much higher, at 48 cents per kWh. Biofuel generators received 13.1 cents per kWh.

¹ <http://www.cbc.ca/news/business/electricity-prices-markets-auction-alberta-1.4417616>

² <http://www.cbc.ca/news/business/electricity-prices-markets-auction-alberta-1.4417616>

³ <https://www.fraserinstitute.org/article/toronto-has-highest-electricity-bills-among-major-canadian-cities>

⁴ <https://www.fraserinstitute.org/studies/rising-electricity-costs-and-declining-employment-in-ontarios-manufacturing-sector>

Nuclear and hydro generators in Ontario, despite providing the majority of electricity output, received much lower rates compared to renewable generators. Specifically, the rate paid to solar generators was more than seven times the rate paid to nuclear generators and more than eight times the rate paid to hydroelectric generators.

These results show there's a substantial price difference between rates paid to wind, solar and biofuel generators and those paid to other generators. The high cost for renewable sources is even more extreme when you consider that in 2016, combined solar, wind and biomass generated less than 7 per cent of electricity in Ontario.

Clearly, Ontario's electricity system was not designed to pursue low-cost renewable energy sources and the government shows no interest in switching to a more competitive market-based system.

As a result, Ontarian households and industries are struggling to pay high electricity bills. From 2008 to 2016, residential electricity prices in Ontario increased by 71 per cent⁵—more than double the national average. To make matters worse, a recent study⁶ shows Ontario's skyrocketing electricity prices cost the province more than 74,000 manufacturing jobs between 2008 and 2015.

Repealing existing long-term contracts and subjecting renewable generators to market competition would be a step in the right direction, as it would likely reduce electricity prices for Ontarians. The Ontario government should follow the example of many European countries, including Germany, France and Spain, and reform the costly commitments it made to renewable generators. For instance, in 2013, the government in France cut the guaranteed rate offered to solar generators by 20 per cent⁷.

Another approach to mitigate Ontario's high costs is to enact legislative changes to rollback costs associated with renewable contracts. The general principle behind this idea is that the government can write laws that, once passed in the legislature, nullify contracts the government itself signed previously.

Ultimately, the Wynne government should repeal the high-cost guaranteed contracts offered to renewable generators, and instead focus on switching to a more competitive market-based electricity system. We urge the government to pursue meaningful reforms to produce real reductions in electricity prices in Ontario.

⁵ <https://www.fraserinstitute.org/studies/evaluating-electricity-price-growth-in-ontario>

⁶ <https://www.fraserinstitute.org/studies/rising-electricity-costs-and-declining-employment-in-ontarios-manufacturing-sector>

⁷ http://fraseriis2/research_resources/default.aspxhttp://business.financialpost.com/opinion/governments-rip-up-renewable-contracts-2