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Energy and Environmental Policy: A Need for Reason over Rhetoric

Canadians and Americans represent 5.0 % of the global population and consume 25.5 % of global energy resources. This fact reflects how and where we live, work and play - our culture and geography. Yet there are many challenges concerning the cost, environmental impact and geopolitical security of our future energy supplies. To meet these challenges we will need reasoned and farsighted public policy from all governments.

Leading up to a general election, it is essential that all political parties develop a comprehensive energy policy that integrates economic-environmental and security considerations. For example, the current Ontario government did not have such a comprehensive policy plan upon assuming office; but neither did the other contenders. Nonetheless, the McGuinty government's electricity policy illustrates an important pitfall for future policy makers.

The government's most consequential electricity policy commitment was to eliminate Ontario's coal fired generation by 2007, presumably as an environmental initiative. In fact, the government embedded the notion of ministerial choice of generation technology in new legislation. However, by making coal, and not various pollutants, the problem, the McGuinty government's policy has had numerous adverse consequences.

"Coal exit" was a major initiative, because it meant closing roughly 6,500 MW, over 20%, of existing generating capacity. These plants are strategically positioned, reliable, flexible, low cost and with a very secure fuel supply. The government persisted with the 2007 target for roughly eighteen months. Finally they publicly acknowledged the practical implementation difficulties and moved the "shut-down" target date safely beyond the next election, first to early 2009 and now to possibly 2014.

Those who promulgate a “coal exit” policy no doubt have good intentions. But good intentions, while necessary, are not enough in a complex world! In Ontario, for example, it was never advisable to wait if one wanted to do something for the environment. Although not implemented, smog reducing retrofits were available three years ago at a relatively modest cost to consumers, while preserving all the benefits of the existing coal fired plants – their flexibility, reliability, strategic location and security of fuel source. It is smog (and mercury) that incapacitates and potentially kills Ontarians.

Climate change could have been addressed as well. Carbon could have been priced immediately into the cost of energy – from all fossil fuels, not just coal. The government could start doing that right now, indeed could have started three years ago. Carbon pricing will drive: conservation; use of renewable energy technologies; and carbon capture and underground storage (perhaps in Western Canada or elsewhere, paid for by Ontarians). In fact carbon capture and sequestration are vital new technologies, if anything substantial is to be accomplished globally - and especially in the developing world where future growth in energy, particularly coal, use will be greatest.

But herein lies the political rub! Governments, and not only the current Ontario government, fear retribution at election time if they conspicuously increase the price of energy. In fact, the McGuinty government continues to control the price of electricity in Ontario (for example, through manipulating returns to Ontario Power Generation’s assets). This is contrary to its public claims of removing politics from electricity pricing and making conservation a priority!

It probably *is* smart short-term politics to push all costs into the future while proclaiming the best of intentions; alas it is not great for democratic accountability, the economy, the environment or our security. Something must be done to address this conundrum.

Because Ontario’s “coal exit” policy was not operational and yet forestalled better and timelier alternatives, it has had a negative effect on the environment. But this is not its only adverse consequence. The Minister of Energy says repeatedly that he has to focus on Ontario’s generation

“crisis” to ensure future reliability. But a generalized “crisis” would not have existed without the near term coal exit target dates. The mere operational existence of the coal-fired plants, not the amount they run, adds to overall grid reliability.

And what has the government’s policy induced “crisis” wrought? It has led to a new agency, the Ontario Power Authority, entering numerous deals in order to secure replacement generation. Some of these deals have been subject to competition, as they should. Others, however, have not. Where competition was not possible, the deals should have been subjected to performance-based regulation, administered by the Ontario Energy Board.

Perhaps the absence of formal regulatory rate setting was an error of omission – although it is difficult to believe anyone would overlook such basic governance principles. More likely it was not done in order to “rush” ahead with new generation to meet the self-inflicted crisis. In this instance, not only is there no regulatory oversight, but everyone on the other side of the deal knows that the government is in panic mode!

“Coal exit” has also diverted attention from nuclear generation, which supplies fully half of Ontario’s electricity. It is clear that the McGuinty government and the Ontario Power Authority plan to continue Ontario’s considerable dependence on this technology. However, most of Ontario’s existing reactors have to be decommissioned or refurbished by roughly 2020 – a legitimate and major concern.

Nuclear has improved its performance, especially globally, and appears set for a renaissance of new construction. But the construction, operation and refurbishment of Ontario’s nuclear plants have been beset with governance and perhaps technology challenges. These issues should have been reviewed fully and transparently - and without a “crisis” mentality. However, having encouraged politicization of technology choices, the government may well have feared such a full and dedicated review, especially after giving itself no obvious large-scale alternative.

The recent Bruce nuclear deal is a crucial precedent. It too was accomplished without the benefit of a competition or a full-scale regulatory price setting. A fully competitive marketplace is unlikely to function for nuclear generation. For the immediate future there is simply too much risk. That does not mean that we should abandon nuclear generation. But it does mean that nuclear *must* be subjected to rate setting by the Ontario Energy Board. In the rush to meet its self-inflicted “crisis” the government did not subject the Bruce deal to rate regulation; and Ontarians are left to wonder if their interests were protected.

The simple truth is that there are no perfect technologies or fuel sources. Each has its own advantages and disadvantages. By demonizing coal and otherwise politicizing energy technology and fuel choices, the Premier, Minister of Energy and their political advisors made a fundamental error in public policy. This error has been magnified by a subsequent series of related policy mistakes.

Hopefully future governments will develop, before assuming office, an energy policy which integrates economic-environmental and security considerations. Equally they should develop a viable implementation strategy. Until reasoned public policy, based on facts, replaces facile political rhetoric, the public will continue to be put at unnecessary risk.

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