

Ontario's Market Surveillance Panel says the province's Independent Electricity System Operator repays 'a significant portion' of the carbon costs that gas-fired generators incur.

BY MATTHEW MCCLEARN, GLOBE AND MAIL, OCT. 19, 2021

An energy watchdog has urged Ontario's government to stop reimbursing natural gas-fired power plants for federal charges associated with their greenhouse gas emissions.

In a report released last month, Ontario's Market Surveillance Panel said the province's Independent Electricity System Operator (IESO) repays "a significant portion" of the carbon costs that gas-fired generators incur while their facilities are ramping up to provide electricity to the grid. The refunds are sometimes larger than the carbon cost incurred, the panel alleged.

"The excess of the IESO's reimbursement is larger for a less efficient facility and larger for a facility with a high ratio of startup to runtime, creating a perverse incentive," the report said. "The more you pollute in startup, the higher the IESO's reimbursement to the point of reimbursing all carbon cost charges for the year, or even more."

The refunds are an example of how federal commitments to combat climate change can clash with provincial energy goals. The federal government is trying to encourage emission reductions by incorporating the costs of climate change into the price of fuel and industrial activity. But the IESO says refunding those costs is necessary to ensure that natural gas plants can respond to changes in supply and demand.

Ontario's gas-fired plants are capable of generating almost as much electricity as its nuclear fleet but are used far less frequently. Gas- and oil-fired generation produced 9.7 terawatt hours last year – seven per cent of all electricity generated in the province.

One benefit of gas-fired plants is that they're "dispatchable," meaning they can be fired up during periods of peak demand and taken offline afterward. But the process of starting up a plant can take several hours, during which they release greenhouse gases while producing little or no useful energy.

Enter the IESO's Real-Time Generation Cost Guarantee Program. Established in 2003, it reimburses generators for fuel, operating and maintenance costs during startup. In a statement, the IESO said carbon cost refunds total between \$1-million and \$3-million annually.

Atura Power, owned by Ontario Power Generation, claims to have the province's largest fleet of combined-cycle turbine gas plants, operating four large facilities in Southern Ontario. Atura did not respond to inquiries from The Globe and Mail about IESO payments, and the IESO said payments to individual companies are considered confidential.

"To ensure generators are available and the reliability of the grid is maintained, the IESO reimburses generators for only those carbon costs incurred during start-up operations," the Crown corporation said, "and only when those costs cannot be recovered later on during their operations in the energy market."

The Market Surveillance Panel has between three and four members who monitor the province's wholesale electricity markets and report to the Ontario Energy Board any conduct they regard as "inappropriate or anomalous." The panel previously concluded that the Generation Cost Guarantee program was unnecessary and should be scrapped. Its latest report says the carbon price refunds undermine government efforts to reduce greenhouse gas emissions by eliminating the incentive to invest in more efficient, lower-emission technologies.

"If this program was abandoned, then non-quick start generators would build their startup costs into their bids in the electricity market or their contract proposals when they're negotiating contracts with the IESO," said Don Dewees, a retired economics professor who stepped down from the panel last month.

"We think that the market should be supportive of environment goals" and be "efficient and competitive."

A spokesperson for Environment and Climate Change Canada, which oversees the federal carbon pricing system, said the department became aware of the IESO's payments last month. The payments are "not explicitly addressed" under current carbon pricing standards, Krystyna Dodds, wrote, but will undermine the system's intent. Updated standards published in August, which will apply from 2023 to 2030, will prohibit such measures.

"Providing refunds that are tied to the amount of carbon price paid by a facility risks negating the price signal sent by the carbon price, since the facility will no longer have a financial incentive to reduce its carbon emissions," Ms. Dodds wrote.

Dave Sawyer, the principal economist for the Canadian Institute for Climate Choices, said Ontario ratepayers are effectively subsidizing natural gas utilities.

"It's another example of the Ontario electricity system adding unnecessary costs," he said. "It is one of these perverse subsidies that you look at, scratch your head and say, 'Are you kidding?'"

Jack Gibbons, chair of the Ontario Clean Air Alliance and a vocal opponent of gas-fired generation, accused the IESO of attempting to sabotage the federal carbon tax.

"The IESO is bending over backwards to protect the profits of Ontario's gas-fired electricity generators," he said, "instead of working to reduce Ontario's greenhouse gas pollution."

According to IESO forecasts, Ontario will rely more heavily on its gas-fired plants in the coming years as nuclear facilities are retired or refurbished. Consequently, greenhouse gas emissions from the province's electricity sector are expected to spike.

Ontario briefly implemented its own cap-and-trade emissions scheme in 2017, but Premier Doug Ford cancelled it after his election victory the following year. The federal government then imposed its own carbon pricing system on Ontario, which remains in place. The Ford government has signalled it will introduce its own system.

In a letter this month, Ontario Energy Minister Todd Smith asked the IESO to evaluate a provincewide moratorium on building new natural gas plants and report back by November, 2022.