

Ontario's Great Leap Forward: Wynne's Climate Change Action Plan and Cap & Trade Program

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Several media outlets have characterized Ontario Premier Kathleen Wynne's new climate change climate action plan and cap & trade program as "sweeping" in its impact and coverage; sweeping doesn't capture it. Her meta energy plan for Ontario is beyond anything seen in Canada; it is on the scale of Mao's Great Leap Forward or Soviet 5-year plans. It is a plan that is top-down, involving a level of state intrusion that is truly astonishing. It is also, notwithstanding feints to the contrary, without significant public support, carried out with the speed of a government with lots to hide. The plan affects every nook and cranny of Ontario's economy and households. And all of it justified by the apparent messianic calling of Premier Wynne. We are reminded of the one-man proclivities of our immediate past Prime Minister Stephen Harper. Kathleen Wynne adopts this one-woman predisposition in spades; indeed, she writes it large.

Ultimately her objective is to run a society that is carbon-free, and to run it at almost unlimited cost and intrusion. Citizens of Ontario will be the ones to bear the cost and suffer the consequences among other ways, according to the kind of energy they use; the way they heat their homes in the cold months and cool them -- presumably with heat pumps -- in the warm months. They will be instructed on the methods of housing construction, the configuration of their communities, and quite literally the cars that will drive. Their own tax money will be used to socialize them into using public transit, or more preferably to walk or cycle to get to work, do their shopping, go to school, or participate in state managed recreation. Initially, the plan will involve subsidies, incentives, and gentle "nudges;" later the nudges will become mandatory edicts backed with equivalent penalties, some of which will involve criminal sanctions.

Now for the details of this quite massive social engineering.

Regulating Households

The Liberal Government claims the plan will not cost Ontario households more than \$13.00 per month but simple math based on Ontario's population puts that figure closer to \$31.00/mo.¹ Globally, the price tag is \$8 billion.² While the Government is offering (spending) \$600 million directly on households for energy retrofits, those cash incentives only make a small down payment on the mandatory installation of such things as: "geothermal and air source heat pumps, solar thermal and solar energy generating systems for space and water heating," the elimination of "wood stoves" targeting "the North and rural areas," and other initiatives to promote "net zero carbon" in residences across the province.³ Future building codes will further entrench new energy regulations on the configuration of all homes. Residents of Ontario will require energy audits before homes can be put the market for re-sale.⁴ Initially these audits will be free, later there will be a fee added to all the other onerous taxes and fees the province places on the sale of a home.

The big regulatory change being invoked, depending on whose timetable you believe, is the elimination of natural gas heating and cooling for homes. *The Globe and Mail* received a leak from a disgruntled Liberal Cabinet Minister or staffer that prompted the Premier to engage in some world-class backtracking on the provision. Notwithstanding the putative change of heart by the Premier the *Globe* reports that the original Cabinet minutes were not rescinded, which mandated the appropriate ministries to explore natural gas elimination slated to begin before 2030.⁵

The Wynne Government is committed to "compact walkable communities," where all commuters will walk, cycle or take transit on their commute to work.⁶ This promises both to worsen congestion on public transit, and to bring suburban living as we know to an end. It is a reminder of "model" of living plans invoked in decades past when Soviet era, Le Corbusier high rises were promoted by the state.⁷ Assisting this grand revisioning in support of compact communities is a province-wide provision to "eliminate minimum parking requirements over the next 5 years in municipal zoning bylaws" -- beginning the process of eliminating cars.⁸

Wynne and her bureaucrats make several assertions that they will protect low income households in their planning, especially growing cohorts of retirees. But for example the offsets on

electricity bills for low income households currently cover only a paltry \$30-45 for monthly electricity bills that run many times that amount. In fact, Ontario's low income households are in crises; a rising number are literally unable to pay their electricity bills. Fully "8% of households are in arrears, and owe more than \$172.5 million to utilities." Electricity bills have risen "56% over the last 10 years."⁹

Multi-auto households are also targeted. The plan aims to place an electric or hybrid vehicle in every multi-vehicle driveway by 2020, out of a total of about 1.7 million cars."¹⁰ "[It] sets targets for expanding electric vehicle sales at 5 per cent of all vehicles sold by 2020, and up to 12 per cent by 2025. Ontario will maintain a subsidy of \$14,000 on leasing or buying a full electric vehicle. Moreover, the province is prepared to provide free overnight electric charging for residential and multi-residential customers for four years starting in 2017 and lower utility bills that charge vehicles.¹¹ In addition, Ontario intends to remove less fuel efficient, older vehicles off the road by offering low and moderate income households rebates; new and used electric vehicles or hybrids" will act as replacements.¹² The province will "vastly increase the number charging stations across the province, including deployment to workplaces, multi-unit residential buildings, downtowns, town centres and ONroute locations" along the 400 series of highways.¹³ "All new homes and townhomes with garages in Ontario will have a requirement for 50 amp. and 240 volt receptacles in their garages."¹⁴ And all newly built commercial office buildings and other workplaces must provide charging infrastructure by 2018. It goes without saying that all of the mandatory requirements for charging infrastructure apply to institutions in the province, including hospitals, universities, colleges and government buildings.

Regulating Business

Eventually, business gets to pay for a large portion of Wynne's massive plan through a bill styled the *Climate Change Mitigation and Low-carbon Economy Act, 2016*. And the mechanism chosen for payment is a province-wide cap and trade program, linked to the province of Quebec and the state of California. The government aims to reduce greenhouse emissions by 15% of 1990 levels by 2020, a relatively easy lift since at least 6% of their 15% target has been achieved by mothballing the province's coal-fired electricity plants. Because the so-called 1990 level of emissions are so much higher than 2016, there is rather little to do in the first few years of the program. It also noteworthy that the auto sector has already considerably reduced its

emissions, in the last 10-20 years. The target for 2013 is 37% below 1990 levels and for 2050 it is 80% below 1990 levels.

The cap and trade program begins in January 2017, with the first auction of allowances beginning in March 2017. It is a stand alone auction, but “once alignment is complete, auctions will be held with Quebec and California in every quarter,”¹⁵ as members of the Western Climate Initiative -- a cartel of participating trading states.

The provincial cap is set initially at 142 Mt of CO₂, and will decline by 4.17% each year until 2020.¹⁶ Participants (mandatory, voluntary and market) enter into the program if they emit 25 kt of carbon dioxide. Also, those who deliver transportation fuel are captured at 200 litres or more.¹⁷ Coverage of the cap and trade program will reach about 80% of businesses. At that rate they are reaching all but sole proprietors.

Theoretically, businesses enter into the market by buying allowances which are supposed to match their carbon limit. Oddly, the allowances are being given away for free for the first four years and so there is not much of a market. Apparently, the Grits are desperately afraid of “market leakage,” where businesses are apt to take a hike to other jurisdictions in order to avoid the program and/or to operate competitively. The Ontario Chamber of Commerce among others are holding their breath hoping against hope that this program is not going to be a disaster.

“Market design features will largely be based on those developed by the [Western Climate Initiative]. Consistent with WCI market design, the Ontario regime will allow market participants to participate in auctions and purchase credits [in addition to mandatory participants]. Key components of market design include registration requirements, auction rules, trading rules, settlement or reconciliation rules, and strategic reserve sales. Auctions will be conducted by sealed bid in a single round with lot sizes of 1000 allowances with a uniform minimum price. ... There will be a purchase limit and holding limit. The purchase limit will prevent mandatory and voluntary participants from purchasing more than 25% of allowances sold at auction; market participants will be limited to 4% of allowances and credits.”¹⁸

Wynne made quite a point of insisting her program would be non-neutral in terms of revenue capture. She is not going to allow an opportunity to collect millions to pass her by; all that cash

isn't going to be wasted on paying other expenses like annual deficits and the provincial debt. Her primary aim is to have a residual bucket of money to pay for all the ancillary "carbon-free" programs she and her Minister of the Environment have designed in the climate change action plan. Indeed, the programs are quite properly listed at end of the *Climate Change Mitigation Act* in Schedule 1. The legislation also establishes a Greenhouse Gas Reduction Account out of which the proceeds of auctions will be dispensed -- the Opposition somewhat cheekily labels the Account a slush fund. The Government has only modestly tried to hide its revenue capture; the cap and trade charge to electricity customers will be hidden under a corner of the delivery charge sent out in local utility bills.¹⁹

The province is supposed to take in an estimated \$2 billion annually from the quarterly auctions - - although obviously not in the short term. But there is a wrinkle. The Wynne team received some bad news in June 2016, just when it was launching its cap and trade program. California and Quebec, Ontario's partners in the WCI, only sold 11% of their emissions permits in May. Observers noted that this is an early sign that the market is over-sold; a concern leveled by critics early on.²⁰ A continuing shortfall could put the entire plan in jeopardy from a funding point of view.

The other distinguishing features of the Act are its punitive qualities. "Much of the Act is dedicated to establishing investigation, enforcement and administration mechanisms."²¹ The kings of the program are the "Directors;" participants will live in fear of their rulings.

Why Now?

We'd expect that such a program would be built upon pretty solid evidence of harm, comparable to, say, acid rain in the 1980s when the world and Canada were confronted with dying fish in dying lakes. After all we are told daily of melting glaciers, starving polar bears, rising oceans, and other maladies. Surely comparable effects are visited upon a province as large as Ontario. The best description that the Minister of the Environment could come up with apart from wishing to avoid a 2 degree Celsius increase in average global temperatures was the following: Ontarians had big rainstorm in the summer of 2013 that dropped a lot of rain of all places on Toronto, which caused \$940 million in damage; we had a severe ice storm in the early winter of 2012, which caused \$200 million in damage, and later caused an estimated 80% loss

for Ontario's apple crop, and our ice roads in Northern Ontario are melting earlier in the spring.²² That's about it, according to the Minister's *Climate Change Strategy* (Nov. 2015). And oh yes, its all had untold effects on raising insurance premiums. Unfortunately, these weather events are tantalizingly close to normal summer and winter weather and the so-called damage rings hollow. The fact of the matter is there are almost no extraordinary effects resulting from global warming in Ontario.

If not weather effects, where else should we look? Perhaps to the Premier's imagination?

She has described climate change as "the greatest challenge humankind has ever faced." She quotes the World Health Organization that by 2030 "250,000 additional lives will be lost every year due to climate change."²³ On numerous occasions she has referenced the planetary stakes: "We are on the cusp of a once in a lifetime transformation. It's a transformation of how we look at our planet and the impact we'll have on it."²⁴ And then there's her grandchildren and what she'll say to them: "When my grandchildren ask me what we did to help our planet, I want to be proud of what we accomplished."²⁵ The final plea and a favourite of left wing politicians: "Not doing anything is costing us billions of dollars The cost now of not having a carbon pricing regime in place, the future costs in terms of the environment -- so the cost to people, the cost to the environment and the cost to the economy ... [is huge] ."²⁶

There is just one problem with all her aspirational plans. The public is not buying it. By a 2:1 margin, Wynne's cap and trade program is unpopular with Ontarians: 56% are opposed, 28% are in support and 16% are undecided, according to a Forum Research poll taken Aug. 15, 2016 (N=1097).²⁷ In the same poll, Wynne gets a 16% job approval rating, the lowest of the party leaders.²⁸

The public has figured out that Canada's contribution to world GHGs is paltry -- actually 1.6% in 2012. Since at best we are going to make a minuscule contribution with all the climate action plans, the public has ascertained that it is pointless to spend billions of dollars in the amelioration. It might feel good for progressive politicians, like Wynne, to advance her radical agenda, but it has literally nothing to do with the way life is carried on in Ontario, and the way the state should be governed.

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² Keith Leslie, "Environmentalists, [some] automakers applaud Ontario's \$8.3B climate change plan," *Canadian Press*, June 8, 2016.

³ Mike Crawley, *CBC News*, June 8, 2016; *Ontario's Five Year Climate Change Action Plan, 2016-2020*, Government of Ontario, June 8, 2016, p. 27.

⁴ *CCAP*, p. 29.

⁵ "Fact check: Ontario and the future of natural gas," *Globe and Mail*, May 27, 2016.

⁶ *Climate Change Action Plan*, p. 31.

⁷ James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*, New Haven: Yale University Press, 1998, chapter 4.

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¹² *Ibid.*

¹³ *Loc. cit.*

¹⁴ *Loc. cit.*

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¹⁹ "Liberals hiding cap and trade true cost," *Toronto Sun*, Aug 4, 2016.

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