

Mighty winds and other perverse Earth Day incentives

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By Tony Keller, special to [CBC News](#)

Did you hear the Earth Day joke about the provincial government that decided to save the planet by encouraging the purchase of big, expensive, fuel-inefficient cars rather than smaller, less polluting alternatives? Yeah, I didn't find it all that funny either.

If you live in Quebec, British Columbia or Ontario, you can get a subsidy of up to \$2,000 when you buy a vehicle with a hybrid motor — a category that includes luxury SUVs.



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The more expensive the vehicle, the higher the subsidy. If you live in Prince Edward Island, you'll get a cheque for up to \$3,000.

But buy a car that gets better gas mileage and hence pollutes less than a hybrid SUV — i.e. nearly every small car out there — and you'll get no subsidy at all. What kind of environmental plan is that?

Masquerading

The programs are a classic example of perverse incentives. They say they're aimed at reducing greenhouse gas emissions, but that's not exactly what's being delivered.

I can't imagine that too many Canadians want to see their tax dollars spent on subsidizing an "Upgrade To A Gas Guzzler!" strategy. But, dear taxpayer, that's what you're paying for.

Over the next few years, governments at all levels are going to be laying out ambitious plans to cut greenhouse gas emissions. But as you look at their proposals, ask yourself: What exactly are they selling?

Does the plan substantially reduce CO2 emissions? Does it use markets and price signals to reach the CO2 reduction target at the lowest cost possible? And is it purely an environmental plan, or have more costly political objectives been grafted on?

Take Ontario's Green Energy Act, for example. It aims to reduce significantly the amount of greenhouse gases generated by the production of electricity.

But the province also wants to create 50,000 jobs. *And* dramatically increase the output of alternative energy, particularly wind and solar. *And* subsidize alternative energy producers to locate in Ontario, in the hope of becoming the Silicon Valley of wind turbines and solar cells.

It turns out that the first objective has almost nothing to do with the others, which add up to what looks like an extremely expensive industrial strategy masquerading as an environmental program.

Stop when you're ahead

Remember that, without much fanfare and using traditional technologies, Ontario has already scaled back its use of dirty coal in electricity generation.

Coal used to account for nearly 20 per cent of Ontario's electricity; last year it fell sharply to just 6.6 per cent and it's well on its way to zero by 2014. (Almost all of the rest of Ontario's power comes from zero-emission hydro and nuclear.)



Ontario Premier Dalton McGuinty, announcing a new 44-turbine wind farm near the shores of Lake Erie in 2008. (David Chidley/Canadian Press)

Coal is being replaced by natural gas, a cheap fuel that produces only a fraction of the smog-causing chemicals and about half as much CO₂.

It is also being replaced by conservation — consumers using less energy, thanks to things like rebates to buy efficient appliances, or the simple desire to cut their electricity bill.

"Conservation," says the Ontario Power Authority's most recent annual report, can "reduce operating costs, is less expensive than building new supply and leaves a smaller environmental footprint."

The result of gas plus conservation has already yielded a huge climate change win for the province.

In one year, at little cost to the consumer, using proven technology, Ontario's electricity system took an already small carbon footprint and reduced it by more than a third.

What's more, the provincial electricity system is well on its way to a 75 per cent CO₂ reduction over the next four years. This is remarkable.

It also means that only a very small fraction of Ontario's total greenhouse gas output is now produced by electricity generation. (By 2014, it will be down to about five per cent.)

The electricity fight is largely won. If you want significant further GHG reductions, you will have to look at much more important polluters, such as cars and trucks.

But that, unfortunately, does not appear to be how the government of Ontario sees it.

Higher rates

Instead, the province is intending to ramp up a multi-year, umpteen-billion dollar plan to create 50,000 jobs — the McGuinty government never fails to mention the jobs — by heavily subsidizing the private sector to build more wind and solar power.

A key part of this plan is the promise to buy this power at prices ranging from several times the market rate to about 20 times market rates. These additional costs will be passed along to regular consumers in the form of higher electricity prices.

In other words, the more wind and solar produced, the higher electricity prices will go. Investors love it — for all the reasons that taxpayers and ratepayers should not.

"The recent rush to 'green' Ontario's electricity system," wrote former OPA chief executive Jan Carr in *The Journal of Policy Engagement*, "has produced a largely ad hoc approach to the selection and investment in power generation technologies that will unnecessarily increase the cost of electricity with far-reaching economic and social effects."

Questions about the most cost-effective way of running the system and reducing pollution, he added, "cannot be answered when technology and investment decisions result from lobbying efforts by advocacy groups or are guided by public popularity."

B.C. gets it

When it comes to finding "the most cost-effective way of reducing pollution", the province on the right track is B.C.

A few years ago, Gordon Campbell's conservative Liberal government brought in a carbon tax, which sets an overall pollution reduction target, while leaving it to individuals to find their lowest-cost path to GHG reduction: new technology, efficiencies or the zero-emissions option of conservation.

And since almost all of B.C.'s electricity is already produced by clean hydro-power, the carbon tax's target is home heating, cars and trucks.

The tax is levied on all fuels that include carbon, such as gasoline, coal, propane and natural gas. It is being gradually ramped up and, by 2012, the carbon tax on a litre of gasoline will be 9.2 cents.

B.C.'s carbon tax is also what's called revenue neutral: All of the money raised is being returned in the form of lower taxes or rebates.

If you're an efficient energy user, you take public transit, you cut back your driving, you replace an old oil furnace with a high efficiency gas furnace. You could end up with several hundred extra dollars in your pocket. If you're inefficient, it'll cost you.

It's a model that economists love, and most environmentalists too. It's honest, transparent and uses higher prices to get people to change their behaviour. It does not promise a free lunch.

And it is almost certainly going to deliver more bang for the buck than Ontario's plan to subsidize the most expensive forms of electricity.

B.C.'s carbon tax revenues are returned to citizens, but Ontario's impending higher energy rates are going to be a reflection of producers' higher costs. There will be no money to return to anyone.

Ontario's approach also means that though future greenhouse gas reductions in the electricity system will be small, they will come at a very high price.

So, if you like that idea, can I interest you in upgrading to a gas guzzler?