MEETING NOTE – CANADIAN MANUFACTURERS & EXPORTERS

NAME OF ORGANIZATION: Canadian Manufacturers and Exporters (CME)

DATE/TIME OF MEETING: May 8, 2018, 3:00 – 3:30 p.m.

LOCATION OF MEETING: 900 Bay St., 4th floor, Hearst Block

PURPOSE: Discuss electricity rates for Ontario's manufacturers

ATTENDEES:

Ministry of Energy
Serge Imbrogno, Deputy Minister

CME Senior Vice-President, Policy and Government Relations
Mathew Wilson

ANTICIPATED AGENDA ITEMS:

1. Industrial Electricity Rates and Rate Mitigation Programs

NOTES ON AGENDA ITEMS:

1. Industrial Electricity Rates and Rate Mitigation Programs

- Canadian Manufacturers & Exporters (CME) indicate that high electricity prices hinder the competitiveness of Ontario manufacturing and are a barrier to investment in the province.

- In April 16, 2018, CME wrote to the Deputy Minister of Energy, in its letter the CME recommended implementing five policy measures to encourage investment and production in Ontario (see background for more detail).

Suggested Response:

- **The Ministry thanks the CME for its policy recommendations and appreciates the interest it has shown in the province's various rate mitigation programs.**

- **We recognize the importance of electricity prices for all small, medium and large-sized manufacturers.**

- **Indicative industrial electricity prices in Ontario are lower than the average price in the Great Lakes region, as reported by the U.S. Energy Information Administration.**

- **The 2017 Long-Term Energy Plan (2017 LTEP) forecasts industrial electricity prices increasing in line with inflation over the forecast period.**

- **There are currently initiatives available to industrial consumers to help them manage their electricity costs:**

  - **Industrial Conservation Initiative (ICI);**

  - **Northern Industrial Electricity Rate Program (NIERP)**

  - **Process and Systems Upgrade Initiative (PSUI);**

  - **The Industrial Accelerator Program (IAP);**

  - **Demand Response initiatives; and**

  - **Save On Energy for Business conservation programs for commercial and industrial consumers.**

- **ICI has been successful at lowering industrial electricity costs. While savings vary, ICI participants pay about one-third less for electricity compared to if they did not participate.**

- **As of April 1, 2018, the electricity debt retirement charge (DRC) ended – benefiting all businesses including Ontario's mid-sized commercial and industrial consumers. These and other businesses will see their electricity cost reduced by $7 per megawatt-hour (MWh) from the removal of the DRC.**

- **In addition, under Ontario's Fair Hydro Plan (OFHP), the costs of certain electricity support programs are now being funded by the Province rather than by ratepayers.**

- **Combined with the removal of the DRC, this represents an estimated 6.5% reduction in the electricity bill of a typical non-RPP, Class B business.**

- **The Independent Electricity System Operator's (IESO) Market Renewal initiative is expected to save up to $5.2 billion over a ten year period.**

- **The government has also taken significant steps to make Ontario's business tax system more competitive and create the conditions for long-term economic growth.**

<u>Background:</u>

CME Recommendations

In April 2018, the CME wrote to the Deputy Minister of Energy, in its letter the CME made five recommendations to ENERGY that would encourage investment and production in Ontario:

Recommendation	Considerations	Suggested Response
1. *Expand the Northern Industrial Electricity Rate program to <u>all</u> Ontario manufacturers.*	• Participants in NIERP receive a rebate of two cents per kilowatt hour. On average, industrial electricity prices can be reduced by over 20% through the program. • Currently, NIERP is fully subscribed (i.e., with 19 participants representing 26 facilities at an annual cost of $120 million). Note: This program is funded through the provincial tax-base. • Initial ministry analysis suggests that expanding the program to an estimated 20,000 Ontario industrial consumers would represent an incremental annual cost of approximately $560 million, in addition to the current program cost of $120 million.	• In 2015, the Ontario government announced the commitment to an ongoing NIERP beyond March 2016. • The ministry continues to explore opportunities for further rate mitigation, in the context of the impact on other ratepayers and taxpayers. • ENERGY is interested in knowing whether the CME has discussed its proposal with MEDG, MNDM and/or MOF?
2. *Streamline and expand ICI to better enable manufacturers to lower their electricity rates without compromising production (i.e., modifying the*	As of July 2017, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand over 500 kW, in addition to the consumers over 1 MW who were already eligible. Following the expansion program	• Benefits vary depending on the specific consumer's ability to reduce demand during peak hours. Regardless of this ability, companies without very peaky load profiles will see some savings through the program. • The demand reduction that ICI participants achieve provide an

Recommendation	Considerations	Suggested Response
peak avoidance features of the program).	participation has increased from 300 to 1600. • While not specifically mentioned in the CME letter, some consumers that have limited ability to shift have asked for increased program flexibility regarding peak avoidance. • Any changes made to ICI to make it easier to participate in would lead to decreased system benefit and an increased cost shift to other consumers.	electricity system benefit by reducing the province's need for incremental generation in the longer term. • Changes to the program that would allow ICI participants to achieve the same level of savings while providing less demand reduction would reduce the system benefit of the program. • ENERGY is interested in knowing what CME's suggested changes to ICI would include?
3. Re-open, streamline and expand the Industrial Electricity Rate Incentive (IEI) Program to all manufacturers.	• IEI was designed to increase baseload demand during a period of significant surplus. Under IEI, participants are rebated for global adjustment (GA) and other costs on incremental consumption. • IESO awarded 22 contracts to energy-intensive companies across the province through the program. Note: No further intakes to the program are currently planned as the amount of surplus electricity is expected to decrease over the coming years. • Expanding the program to more participants, in particular given the forecast need for capacity by 2023, would represent a cost shift to other electricity consumers.	• IEI was designed to encourage participants to increase electricity consumption and take advantage of the province's near-term electricity supply surplus. • Forecasts indicate that Ontario's electricity surplus will decrease in the near term as nuclear refurbishment continues and the Pickering Nuclear Generating Station is retired. • The 2017 Long-Term Energy Plan (2017 LTEP) forecasts surplus to decrease substantially between now and 2023.
4. Enhance and streamline conservation incentives for manufacturers	• Collaboration in program delivery can result in an efficient and customer-centred approach, and can minimize	• ENERGY is supportive of streamlined conservation and GHG conservation programming.

Recommendation	Considerations	Suggested Response
(i.e., The Smart Green and Industrial Accelerator Programs).	duplication between programs. • Collaborative programs can make customer participation simple and streamlined, but may require detailed agreements between delivery agents – for cost accounting, and attribution of savings and GHG reductions.	• ENERGY staff are working with MOECC and IESO to explore how to further integrate conservation and low-carbon technology programs for both electricity and fuels. • Have you discussed collaboration between CME's SMART programs and the Industrial Accelerator Program with IESO? • Does CME have ideas about how we can ensure a customer-centric, integrated approach in the future? Have you shared any of your ideas with the Green Ontario Fund?
5. *Increase market renewal support for <u>all</u> of Ontario's manufacturers.*	• The move to a single schedule market may impact CME members differently depending on their location in the province. For example, members in the GTA would likely face slightly higher market prices due to system constraints, while any members in northern Ontario would likely face slightly lower market prices. • IESO's Market Renewal initiative as a whole is expected to save up to $5.2 billion and benefit Ontario electricity consumers.	• ENERGY understands that CME has been participating in IESO's Market Renewal stakeholder process. What has your experience been like to date? • Have you raised this idea with IESO? We encourage you to continue to advocate for your members in the process. • IESO's Market Renewal is expected to benefit all Ontario consumers, including manufacturers.

Ontario's Price Mitigation Programs

- ICI – encourages Ontario's largest consumers to reduce consumption during peak periods to reduce their electricity costs.

    - Under ICI, these consumers are charged global adjustment (GA) on the basis of their share of the total system demand during the highest five peak hours of the year.

  - Since July 2017, Class A includes all manufacturers with an average monthly peak demand greater than 500 kW.

  - Following the latest expansions of the program, the number of participating consumers in ICI has grown to an estimated 1100 for the 2017-2018 adjustment period from an estimated 300 participants the prior year.

  - While savings vary, ICI participants pay about one-third less for electricity compared to if they did not participate.

- NIERP – participants in the NIERP receive a rebate of two cents per kilowatt hour.
  - On average, industrial electricity prices can be reduced by over 20% through the program.

  - In 2015, the Ontario government announced the commitment to an ongoing NIERP beyond March 2016. Currently, NIERP is fully subscribed (i.e., with 19 participants representing 26 facilities at an annual cost of $120 million).

- Demand Response Auction – compensates participating industrial and commercial consumers for reducing electricity demand in response to pricing and system needs. The Auction is open to resources with peak load greater than 1 MW (e.g., industrial consumers, aggregators).

CME SMART Green Program

- CME has administered various SMART programs since 2008. See link at: https://cmeweb.crm.eperformanceinc.com/en-CA/

- Announced in February 2016, the SMART Green program was funded by the Green Investment Fund to help manufacturers reduce greenhouse gas (GHG) emissions and improve their energy efficiency. Funds were fully committed as of May 2018.

- CME states on its website (May 3, 2018 update) that it continues to accept GHG-reduction project applications from manufacturers, while GreenON works to implement new funding initiatives, such as GreenON Rebates for small and medium-sized businesses program, and the Solar Rebate program, to be launched “over the next few months.”

  - According to CME, these applications will be reviewed according to the SMART Green program guidelines. If recommended for approval, will be held and transitioned to the new program when it launches (date TBD).

GreenON will reserve the final funding approval decision and will assume all funding agreements.

Green Ontario Fund Programs

- The Green Ontario Fund (GreenON) was established in August 2017. Business programs began rolling out in December 2017.

    – On December 8, 2017, MOECC announced the launch of GreenON Industries, which provides matching funding for eligible projects that reduce GHGs for large emitters and in other industrial, commercial and institutional facilities. This program is delivered by the Ontario Centres of Excellence.

    – Other programs for businesses (including GreenON Rebates) are expected to be launched in 2018.

- In August 2017, the Minister of Energy issued direction to enable IESO to enter into agreements with MOECC and the Green Ontario Fund to support the design and delivery of GreenON programs.

    – The IESO's role as a partner in the delivery of certain Green Ontario Fund programs is intended to help promote an efficient and customer-focused approach and minimize duplication with existing programs.

    – To date, IESO has only been contracted to deliver residential programs.

- The 2017 LTEP stated that the government and its agencies will explore how to further integrate conservation and low-carbon technology programs for both electricity and fuels (see pg.103).

Save on Energy Electricity Conservation Programs

- Save On Energy programs are available through IESO and local distribution companies (LDCs) under the Conservation First Framework. Examples of electricity conservation programs that manufacturers can benefit from are listed below:

    – Retrofit: Provides incentives of as much as 50% of project costs for updating old or inefficient equipment, including lighting, motors, variable frequency drives, and compressed air systems. Advanced funding is available for assisted and social housing buildings.

    – Process and Systems: Provides up to $50,000 for engineering studies and up to 70% of capital costs for energy efficiency upgrades.

- Energy Manager: Funds energy managers that are trained to find energy savings, identify smart energy investments, secure financial incentives, and unleash competitive advantage.

- Training and Support Initiatives: Help provide access to the most up-to-date training, such as in building commissioning, certified measurement and verification, and how to be an energy manager.

Industrial Accelerator Program

- The Industrial Accelerator Program (IAP) is designed to assist transmission-connected companies, and their distribution-connected sites, to fast track capital investment in major energy conservation projects by providing financial incentives.

- There are four streams under the IAP:

  - Retrofit;
  - Process & Systems, including Small Capital Projects;
  - High Performance New Construction; and
  - Energy Managers.

Natural Gas Conservation Programs

- Natural gas conservation programs are available from Ontario's two largest distributors, Enbridge Gas and Union Gas under the Ontario Energy Board's (OEB) Demand Side Management Framework.

- Enbridge Gas and Union Gas both provide incentives for efficient building equipment and system retrofits such as space heating, water heating and food services. Incentives are available for both custom projects and prescriptive measures.

- Enbridge Gas' Run It Right program and the Union Gas Run Smart Building Optimization program continue to support commercial and industrial customers in analyzing a building's energy performance to identify, implement and monitor low- and no-cost operational improvements.

KEY FACTS:

- Canadian Manufacturers & Exporters (CME) is Canada's largest trade and industry association.

- CME represents more than 10,000 companies nationwide. According to the organization, its membership reflects about 82 per cent of Canadian manufacturing production and 90 per cent of all goods and services exports.

- CME represents 2,500 manufacturers & exporters that are concerned with high energy prices.

- Manufacturing accounted for 12% of provincial GDP in 2016, according to the Ontario Ministry of Finance.