COMMERCIAL (NON-RPP) AND SMALL BUSINESS ELECTRICITY PRICES

What is the current status of electricity prices for the commercial and small business sector in Ontario?

1. SUGGESTED RESPONSE:

GENERAL RESPONSE ON ELECTRICITY PRICES:

- **Our government continues to ensure a clean, modern and reliable electricity system for all Ontarians.**
- **Our energy system is being transformed – we are making needed investments to modernize the system. We chose to replace coal-fired generation with cleaner sources of energy, which will not only benefit our environment but also the health of Ontarians.**
- **As we plan for Ontario's electricity needs for the next 20 years, conservation will be the first resource considered, wherever cost effective. Conservation is the cleanest and most-cost effective energy resource, offers customers a way to reduce their electricity bills and reduces the need to build new generation, distribution and transmission infrastructure**
- **We recognize the importance of electricity prices for business. Maintaining competitiveness with respect to energy costs is a top government priority.**
- **Existing initiatives available to small and medium-sized businesses to help them manage their electricity costs include the saveONenergy for Business conservation program.**
- **Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for average residential customers and hold increases to the rate of inflation for four years. As many as half a million small businesses and farms will also benefit.**
- **Actual reductions vary depending on consumption patterns and, where applicable, cost of retail contract.**
- **Ontario's Fair Hydro Plan includes refinancing a portion of Global Adjustment, shifting cost recovery for Rural or Remote Rate Protection (RRRP) and the Ontario Electricity Support Program (OESP) from electricity bills to provincial revenues, and the existing 8 per cent rebate.**
- **The plan includes the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills.**
- **Electricity consumers eligible for the 8 per cent rebate are also eligible for GA refinancing, including small businesses. Small businesses who have signed contracts with electricity retailers are also eligible.**
- **Ontario's Fair Hydro Plan also includes expanding the Industrial Conservation Initiative (ICI) to include smaller manufacturers and greenhouses between 500 kW and 1 MW, in addition to the large consumers over 1 MW who are already eligible.**
- **Consumers of all sizes will benefit from shifting cost recovery for RRRP and OESP from electricity bills to provincial revenues. This action is expected to lower regulatory charges for everyone by approximately $3/MWh.**

- **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.**

Ontario's Fair Hydro Plan and RPP Prices as of July 1, 2017

- **For residential and small business, the OEB has set new, lower RPP prices that build on the reduction in RPP prices that came into effect on May 1.**

- **With the new RPP prices that came into on July 1, the total bill for the proxy customer described under the Fair Hydro Act, 2017 will be about $121. That is about $41 or 25 per cent lower than it would have been without the following mitigation:**

    - **The planned refinancing of a portion of the costs of the Global Adjustment (GA), as reflected in the new RPP prices;**

    - **The 8 per cent rebate, equivalent to the provincial portion of the HST, that has been in place since January 1, 2017;**

    - **The impact of removing most of the cost of the Rural and Remote Rate Protection (RRRP) program from electricity bills, which will now be paid for from provincial revenues; and**

    - **The impact of removing the cost of the Ontario Electricity Support Program (OESP) from electricity bills. The OESP will continue to be available to help eligible low-income customers reduce their electricity bills, and will also be paid for from provincial revenues.**

- **For other customers that are eligible for electricity bill reductions under the Fair Hydro Act, 2017, the OEB has set a credit that will reduce their GA charges.**

    - **These include customers that are eligible for the RPP but have chosen a contract with an energy retailer or market-based pricing. The credit is designed to provide these customers with a level of benefit that corresponds with the benefit being provided to the proxy customer through the lower RPP prices announced today.**

OEB will adjust RPP prices again on May 1, 2018, in such a manner that the total bill for the proxy consumer will increase by the rate of inflation. This could include a further reduction in RPP prices, if necessary, to limit the total bills increase to the rate of inflation.

Five Point Small Business Plan

- **To help Ontario's small businesses become more energy efficient, manage costs and save money, the province has developed the Five-Point Small Business Energy Savings Plan.**

- **Ontario's Five-Point Business Energy Savings Plan includes:**

    1. **Promoting the use of energy mangers who can perform assessments and help businesses pursue conservation projects.**

    2. **Marketing business conservation programs, including working with key partners such as Chambers of Commerce, Business Improvement Associations and local economic development offices.**

    3. **Enhancing business conservation programs, with increased rebates, more contractor engagement, training, and a simplified application process to make it easier and faster for small businesses to participate.**

    4. **Working to make on-bill financing available to small businesses to help with the upfront costs of energy conservation projects.**

5. **Providing long-term stable funding for small business initiatives.**

- **On October 23, 2015, the Ministry of Energy released "Helping Small Businesses Save Energy," a print and online guide on new Ontario programs and services available to businesses.**

If asked about time-of-use Global Adjustment (GA) for non-RPP consumers

- **As outlined in its November 2015 Regulated Price Plan (RPP) Roadmap, the Ontario Energy Board is examining the potential to implement a similar cost allocation to TOU for non-RPP consumers.**

- **The Ministry will monitor the implementation of the plan contained in the RPP Roadmap over the next three to five years, which is aimed at improving system efficiency and giving greater consumer control.**

ICI Expansion

- **The Industrial Conservation Initiative (ICI) allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. Reducing demand during peak hours benefits companies financially and benefits the electricity system by deferring the need for new peaking generation.**

- **Effective July 2017, more businesses can chose to participate in the ICI. We have lowered the threshold to 1 MW and removed sector restrictions so that more consumers can benefit.**

- **Ontario's Fair Hydro Plan includes the expansion of to include smaller manufacturers and greenhouses between 500 kW and 1 MW, in addition to the large consumers over 1 MW who are already eligible.**

- **Newly eligible consumers will be able to opt-in to the ICI program at their discretion.**

If asked about transparency of electricity pricing and system costs

- **The government is committed to increasing transparency in the electricity sector and is taking action to provide clarity around electricity prices for all consumers.**

- **The 2013 LTEP includes 20-year projections of all-in residential and industrial electricity prices so consumers can understand where prices are headed.**

- **The Ontario Energy Report (OER) has detailed information on the province's electricity prices. Since the first OER, we have added the following information to the report:**

    - **Data on monthly Class A Global Adjustment (GA).**

    - **Distribution of average all-in prices paid by transmission-connected consumers.**

    - **Table comparing Ontario indicative all-in industrial electricity prices to other Canadian provinces and U.S. states.**

- **The eventual implementation of capacity auctions will provide transparency of costs of investing in new generation and other forms of supply.**

If asked about the amendment to Bill 144, Budget Measures Act 2015:

- **Finance's amendment in Bill 144, Budget Measures Act 2015, sets a fixed date for removing the Debt Retirement Charge (DRC) for commercial, industrial and other**

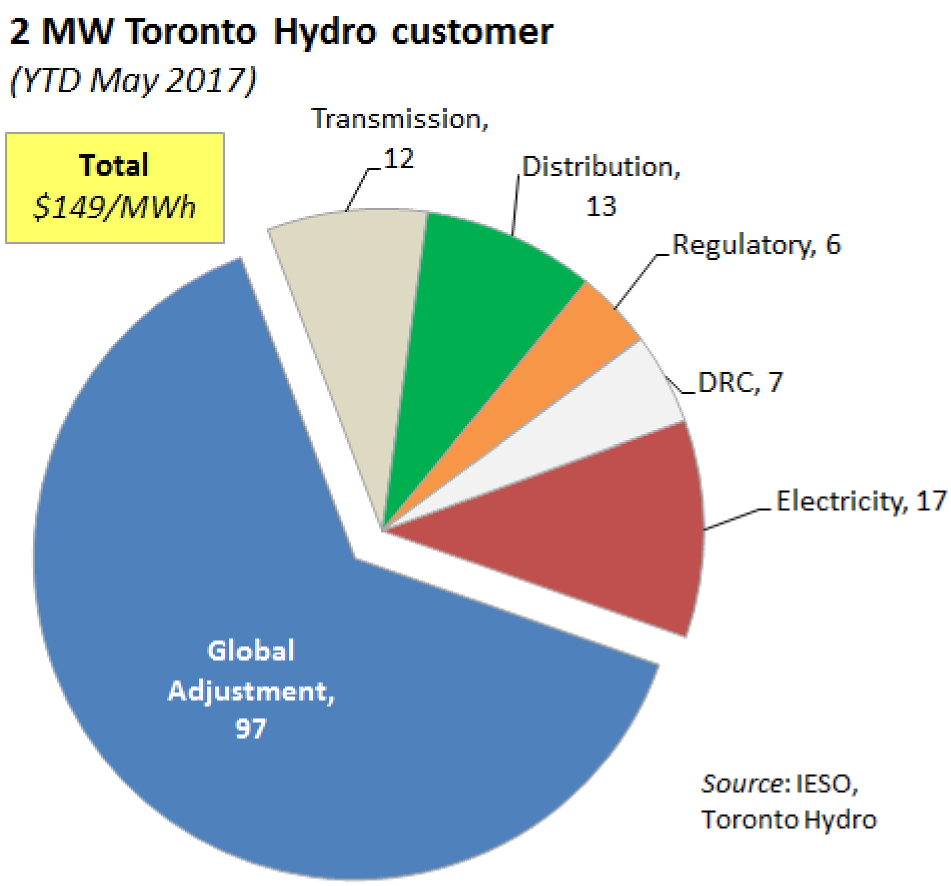
non-residential electricity users on April 1, 2018, nine months earlier than previously estimated.

- **Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users to help them plan their investments more effectively.**

BACKGROUND:

- Figure 1 shows the per unit cost for a 2 MW consumer in Toronto with a 65% load factor.

Figure 1: **Typical commercial electricity prices, year-to-date May 2017 ($/MWh)**



Note: Totals do not include HST. A 2 MW customer is not eligible for the 8 per cent rebate and does not benefit from GA refinancing.

***Table 1*: Components of a commercial (non-RPP) electricity bill, year-to-date May 2017**

Component	Subcomponents	Notes	$/MWh
Electricity	n/a	HOEP is the hourly price that reflects the short term cost of producing power.	17
Global Adjustment	n/a	GA mechanism ensures recovery of long-term generation and conservation cost. GA is paid at a flat rate based on monthly consumption.	93
Delivery	Transmission + Distribution	Costs to build and maintain the high-voltage transmission grid and distribution lines, towers and poles. A portion of these charges are fixed, while others are variable and increase with the amount of electricity usage.	26
Regulatory	IESO fees, uplifts, rural/remote settlement	The costs of administering the wholesale electricity system, maintaining the reliability of the provincial grid and providing financial assistance to consumers in rural and remote areas of the province.	6

DRC	Debt Retirement Charge (DRC)	Electricity distributors collect this charge from consumers on behalf of the Ontario Electricity Financial Corporation. DRC services pays down the standard debt and liabilities of the former Ontario Hydro.	7
HST	n/a	Applied at a rate of 13%	19
Total			**168**

Note: Per unit amounts in table reflect a 2 MW customer in Toronto with a 65% load factor.

Hourly Ontario Electricity Price (HOEP):

- The HOEP is the average of the 12 five-minute market clearing prices that are determined by IESO each hour.

Annual Average				
	$/MWh			
Period	**HOEP (w)**	**Global Adjustment***	**Total**	*% change*
2005	71.87	-7.44	**64.43**	*n/a*
2006	48.50	4.55	**53.05**	*-17.7*
2007	50.38	4.03	**54.41**	*2.6*
2008	51.57	6.15	**57.72**	*6.1*
2009	31.60	30.60	**62.20**	*7.8*
2010	37.85	27.18	**65.03**	*4.5*
2011	31.32	40.48	**71.65**	*10.2*
2012	22.81	49.23	**72.04**	*0.5*
2013	26.50	59.00	**85.50**	*18.7*
2014	35.96	54.59	**90.55**	*5.9*
2015	23.60	77.80	**101.40**	*12.0*
2016	16.69	97.47	**114.16**	*12.6*

HOEP (w) = average HOEP weighted by generation
**Class B Global Adjustment is shown for 2011 to 2016.*

- A decline in HOEP has offset a significant portion of the increase in global adjustment that has occurred since 2008.

- Table 2 shows indicative electricity prices for a typical commercial electricity consumer. For reference, an example of a 1 MW consumer would be a large food retail store, such as Loblaws.

***Table 2*: Indicative Commercial Electricity Prices, 1 MW Consumer (2016)**

2016 Commercial Electricity Prices (Canadian ¢/kWh)							
Jurisdiction	**Cost**	**Jurisdiction**	**Cost**	**Jurisdiction**	**Cost**	**Jurisdiction**	**Cost**
1 Manitoba	6.37	17 Utah	10.87	33 West Virginia	12.15	49 Alabama	14.13
2 Alberta	7.82	18 Louisiana	11.01	34 Pennsylvania	12.19	50 PEI	14.27
3 Quebec	7.92	19 Nebraska	11.08	35 Tennessee	12.34	51 Maine	14.58
4 British Columbia	8.47	20 Illinois	11.10	36 Indiana	12.48	52 New Jersey	15.39
5 Oklahoma	8.77	21 Iowa	11.10	37 Minnesota	12.52	53 Ontario	15.97
6 Newfoundland	8.82	22 Oregon	11.35	38 South Carolina	12.52	54 California	17.61
7 Texas	9.43	23 New Mexico	11.51	39 Nova Scotia	12.66	55 New York	17.65
8 Idaho	9.84	24 Florida	11.52	40 Ohio	12.71	56 New Hampshire	18.55
9 Arkansas	10.23	25 New Brunswick	11.60	41 Arizona	12.90	57 Vermont	18.55
10 Nevada	10.29	26 North Dakota	11.92	**42 U.S. Average**	**12.92**	58 Rhode Island	19.37
11 Virginia	10.44	27 South Dakota	11.94	43 Delaware	12.99	59 Massachusetts	19.92
12 Canadian Average	**10.46**	28 Mississippi	12.01	44 Montana	13.15	60 Connecticut	20.12
13 Missouri	10.52	29 Wyoming	12.06	45 Kansas	13.16	61 Alaska	23.49
14 Washington	10.62	30 Kentucky	12.10	46 Michigan	13.34	62 Hawaii	29.84
15 Saskatchewan	10.65	31 Colorado	12.13	47 Wisconsin	13.90		
16 North Carolina	10.87	32 Georgia	12.15	48 Maryland	14.09		

Note: Estimates may differ from actual costs to a consumer based on location, connection, and operational characteristics. Prices exclude taxes and participation in any applicable jurisdictional benefit programs.

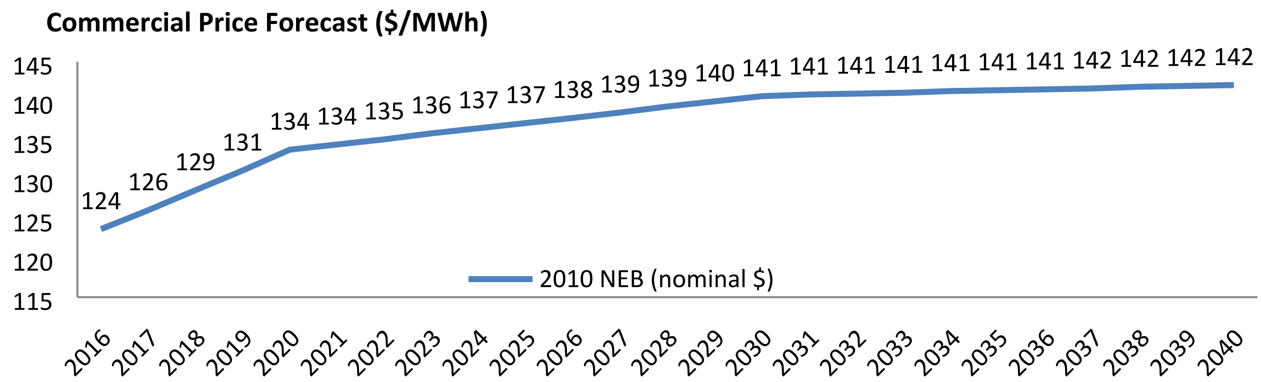
The Ontario price is based on April 2016 data and includes the Hourly Ontario Energy Price, Class B Global Adjustment, Debt Retirement Charge, and transmission, distribution, and regulatory charges.

All other Canadian prices are from the Hydro Quebec Rate Comparison for rates effective April 1, 2016 for select local distribution companies servicing specific cities and reflect a 1 MW consumer with a 56% load factor. Where Hydro Quebec reports prices for two cities in a province (e.g. Calgary and Edmonton), an average of the two is used, in provinces where only one city is reported (e.g. Vancouver in BC, Montreal in QC), that one price is used to represent the province for indicative comparison purposes.

American jurisdictions reflect April 2016 data from the US Energy Information Administration's survey of approximately 500 of the largest electric utilities. The price reflects the average revenue reported by the electric utility from electricity sold to the commercial sector. The value represents an estimated average retail price, but does not necessarily reflect the price charged to an individual consumer. Prices are converted at an exchange rate of 1 USD = 1.28 CAD.

Electricity Price Projections:

- The National Energy Board's *Energy Futures 2016* report projects that Ontario's commercial electricity prices will increase between 2016 and 2032.



Residential and Small Business Consumers:

Regulated Price Plan (RPP):

- About 4.9 million residential and small business (demand <50kW or annual consumption below 250,000 kWh) consumers pay either Time-Of-Use (TOU) or tiered rates under the RPP.

- RPP prices are typically reviewed twice per year by the OEB and are adjusted as required on May 1 and November 1.

- To calculate RPP prices, the OEB forecasts the cost to supply electricity to residential and small business consumers for the next 12 months. These forecasts include factors such as:

  - Forecast natural gas prices;
  - Supply forecasts from each type of generation (nuclear, hydroelectric, natural gas, etc.);
  - Electricity consumption forecast; and
  - Any variance recovery (the over/under-collected electricity costs) from the previous period.

a. Time-of-use (TOU) Customers – approximately 4.6 million consumers:

- TOU prices are intended to provide an incentive to consumers to shift consumption away from high demand periods when the cost to meet province-wide demand is higher.

- The following prices are effective July 1, 2017:

Category	Times	Forecast TOU prices without consideration	Prices including a portion of the	Change from forecast without consideration

		of OFHP	OFHP	of OFHP
Off-peak	Weekdays 7pm-7am All day weekends and holidays	9.1¢/kWh	6.5 ¢/kWh	-29%
Mid-peak	Weekdays 11am-5pm	13.3 ¢/kWh	9.5 ¢/kWh	-29%
On-Peak	Weekdays 7pm-11am and 5pm-7pm	18.5 ¢/kWh	13.2 ¢/kWh	-29%

- Residential consumers typically consume about 65 per cent of their electricity during off-peak hours, 17 per cent in mid-peak hours and 18 per cent in on-peak hours.

b. Tiered Price Customers – approximately 440,000 residential and small business customers:

- Consumers still pay tiered prices that are based on the amount of electricity consumed rather than the time at which the electricity is consumed.

- The threshold is 600 kWh from May to October and 1,000 kWh from November to April, to reflect the fact that households require more electricity in winter months.

Category	Times	Forecast TOU prices without consideration of OFHP	Prices including a portion of the OFHP
1st level	Up to 1,000 kWh	10.7 ¢/kWh	7.7 ¢/kWh
Peak	Everything over 1,000 kWh	12.5 ¢/kWh	9.0 ¢/kWh

- The threshold for business customers is 750 kWh/month and does not change throughout the year.

  - Effective April 14, 2016, the OEB began using 750 kWh as the standard for reporting the monthly electricity consumption of a typical residential customer, down from 800 kWh used in previous reports and the 2013 Long-Term Energy Plan (2013 LTEP).

Ontario's Fair Hydro Plan

- We've been making important investments in a cleaner and more reliable energy system, but these investments have led to higher electricity bills.

- We have heard from Ontarians across the province that the price of electricity has risen too quickly, which is why we are moving forward with a plan that would ensure the costs are shared more evenly over the years ahead.

- Ontario's Fair Hydro Plan will lower electricity bills by 25 per cent on average for residential consumers and hold increases to the rate of inflation for four years, as well as initiatives to reduce costs for businesses. The plan includes the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Ontario's Fair Hydro Plan includes:

  - Refinancing the Global Adjustment (GA) over a longer time period. Electricity consumers that are eligible for the 8 per cent rebate would also be eligible for GA refinancing, including all residential consumers, farms, most small businesses, hospitals, long-term care homes and condominiums.

- Helping vulnerable electricity consumers by enhancing electricity support programs. Eligible consumers will receive additional funding through assistance programs including:
    - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
    - Introducing Distribution Rate Protection to complement Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
    - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
    - Establishing a new On-Reserve First Nations Delivery Credit.
- Expanding ICI to include smaller manufacturers and greenhouses between 500 kW and 1 MW, in addition to the large consumers over 1 MW who are already eligible.
- Shifting cost recovery for RRRP and OESP from electricity bills to provincial revenues, lowering regulatory charges for everyone by approximately $3/MWh.
- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Five Point Small Business Plan

- In partnership with local electric and natural gas utilities and key energy agencies, Ontario's Five-Point Business Energy Savings Plan is being implemented to help small businesses conserve energy, manage costs and save money.

saveONenergy for Business electricity conservation program

- **saveONenergy for Business electricity conservation program offered by local distribution companies –** offers financial incentives for audits, retrofits and process and systems improvements to help businesses better manage their electricity use.
- The RETROFIT program provides incentives up to 50 per cent of project costs to upgrade old or inefficient equipment.
- The PROCESS and SYSTEM program provides incentives to industrial consumers of up to 70 per cent of project capital costs for system and process improvements.
- The Embedded Energy Manager program pays up to 80 per cent of the cost for industrial consumers to hire an energy manager to identify and achieve savings.
- The AUDIT FUNDING program provides up to 50 per cent of the cost of an energy audit to identify opportunities for energy efficiency upgrades and eligible incentives.
- Shoppers Drug Mart, the leading drug store retailer in Canada, used financial incentives through the Save on Energy Retrofit Program to install LED lighting in the refrigerator doors of more than 280 stores across Ontario. The new LED lighting generates less heat to reduce refrigeration requirements, which has helped the corporation realize significant energy savings. Energy efficient lighting is helping Shoppers Drug Mart save over $400,000 in electricity costs annually.

- The IESO is working on a centrally designed and delivered province-wide pay-for-performance Conservation and Demand Management (CDM) program for multi-distributor consumers. The program will provide businesses with choice and flexibility in implementing capital and non-capital energy efficiency measures. The new program will also provide those businesses with multiple locations across the province with a consistent experience for projects and a single program point of contact. The Minister of Energy issued a direction to IESO on June 10, 2016 to deliver this program by the end of fall 2016.

Early Debt Retirement Charge removal

- To help ease pressure on commercial ratepayers, the government introduced legislation that provides a legislated date of **April 1, 2018 to remove the Debt Retirement Charge (DRC) for all non-residential consumers** – nine months earlier than previously estimated.

Time-of-use Global Adjustment for non-RPP consumers

- The GA allocated to non-RPP Class B consumers is recovered through a per unit charge determined by IESO that changes monthly. For these consumers the GA cost is the same regardless of the time that a customer consumes electricity.

- This is different than the effective GA cost paid by individual RPP customers through TOU prices, since the price design of TOU allocates some system costs into different time periods.

- As RPP consumers take action to reduce their peak demand, they reduce the amount of the GA that is allocated to Class B as a whole.

    - This does little to affect the GA that is recovered from the RPP group from within Class B, since short-term demand response tends to deliver small energy savings.

    - Effectively, some of the value of RPP consumer (residential and small business consumers) response to TOU prices accrues to non-RPP Class B consumers (mid-sized commercial and industrial consumers).

- A more equitable approach, according to the OEB, would be to use a similar cost allocation to TOU in order to derive a volumetric charge for non-RPP Class B consumers. This is analogous to that of shaping total RPP system costs to a volumetric electricity charge for RPP consumers.

- The volumetric GA charge for non-RPP Class B consumers could be shaped to an annual hourly profile or shaped to a simple set of TOU periods. A non-uniform GA charge would also have the benefit of providing a stronger peak demand price signal to this group of consumers.

- According to the OEB, changes to the current regulation are needed to address this lack of consistency in the approach to recovery of GA among Class B consumers.

ICI Expansion

- The September 2016 Throne Speech, announced the intention to lower the Industrial Conservation Initiative (ICI) threshold to 1 MW and remove sector restrictions.

- On January 1, 2017, amendments to O.Reg. 429/04 took effect that further expand the ICI program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses are eligible to participate.

- Expanding participation in the ICI program:

    - Reduces cost pressures on the electricity system by empowering more consumers to lower their electricity demand during peak periods; and

- Reduces electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

- Newly eligible customers had the opportunity to opt-in to the ICI program and participating electricity consumers will begin seeing a benefit on their July 2017 bills.

- With more than a thousand new businesses eligible for the expanded ICI, cost impact across sectors and industries will vary.

- Ontario's Fair Hydro Plan includes the expansion ICI to include smaller manufacturers and greenhouses between 500 kW and 1 MW, in addition to the large consumers over 1 MW who are already eligible.

Business Tax Competitiveness

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

- Ontario's business tax reform measures maintain Ontario's competitiveness and business investment climate. These measures include:

  - The move to the Harmonized Sales Tax (HST), a value-added tax. The HST will remove $4.7 billion a year in embedded sales taxes paid by businesses when fully implemented;

  - Eliminating Capital Tax, which corporations paid whether or not they had a profit and was a significant disincentive to investment, providng $2.1 billion of tax relief per year; and

  - Cutting Corporate Income Tax (CIT) rates for small and large businesses, providing $2.3 billion of tax relief per year.

- Ontario's business tax reforms have positioned Ontario as one of the most attractive locations in the industrialized world for new business investment.

- With a provincial general CIT rate of 11.5 per cent and a combined federal/provincial general CIT rae of 26.5 per cent, Ontario's general CIT rate is competitive within Canada and internationally.