
Rate Mitigation Options for Industry

Working Draft

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CONFIDENTIAL DRAFT

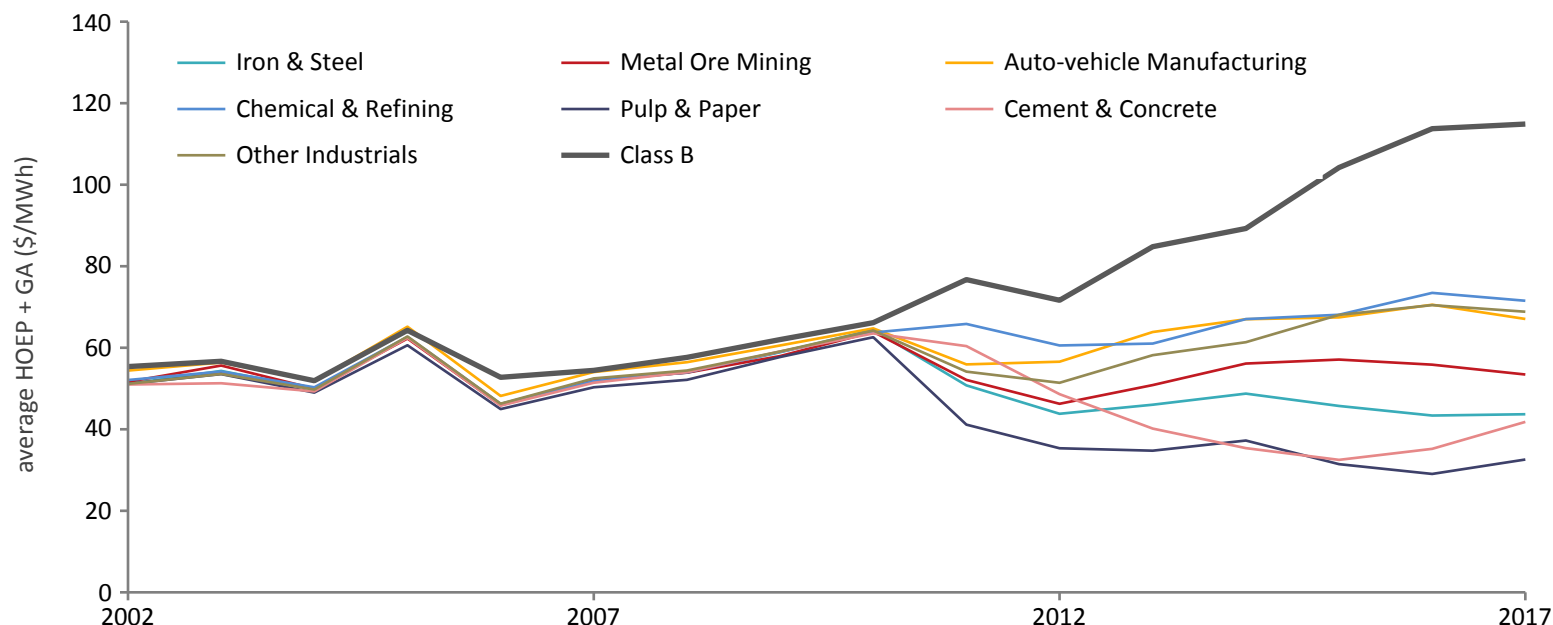
Context

- There are about 1,100 Class A consumers (i.e., ICI participants), mainly mines and large manufacturers and about 50,000 non-Regulated Price Plan (RPP) Class B consumers, including many smaller manufacturers, retail establishments (e.g., restaurants, smaller grocery stores) and municipal buildings.
- In general, Class A large industrial electricity consumers pay the lowest electricity prices in Ontario.
 - Participants in the Industrial Conservation Initiative (ICI), are charged Global Adjustment (GA) based on their contribution to peak demand and pay, on average, 33 percent less than consumers that do not participate in the program.
 - As highlighted in the 2017 Long-Term Energy Plan (2017 LTEP), Ontario industrial consumers pay less than the average in the US Great Lake states, as reported by the Energy Information Administration (EIA). Note: Many industrial consumers claim that electricity rates for industry are too high and a barrier to capital investment in the province.
- The cost of electricity for non-RPP Class B consumers has risen faster than CPI since 2008. Non-RPP Class B consumers' electricity commodity cost reflects the sum of the wholesale market price (i.e., Hourly Ontario Energy Price (HOEP)) and volumetric Global Adjustment (GA).
 - Non-RPP Class B consumers are typically too large for the Regulated Price Plan (RPP) and would not receive GA refinancing through Ontario's Fair Hydro Plan.
 - Many Non-RPP Class B consumers are also not eligible for the expanded Industrial Conservation Initiative (i.e., not manufacturing and/or below 500 kW).

Context – Historic Indicative Commodity Cost by Sector and Consumer Class

- Electricity commodity cost varies across sectors and between consumer class. Further variation exists based on individual consumer load characteristics.

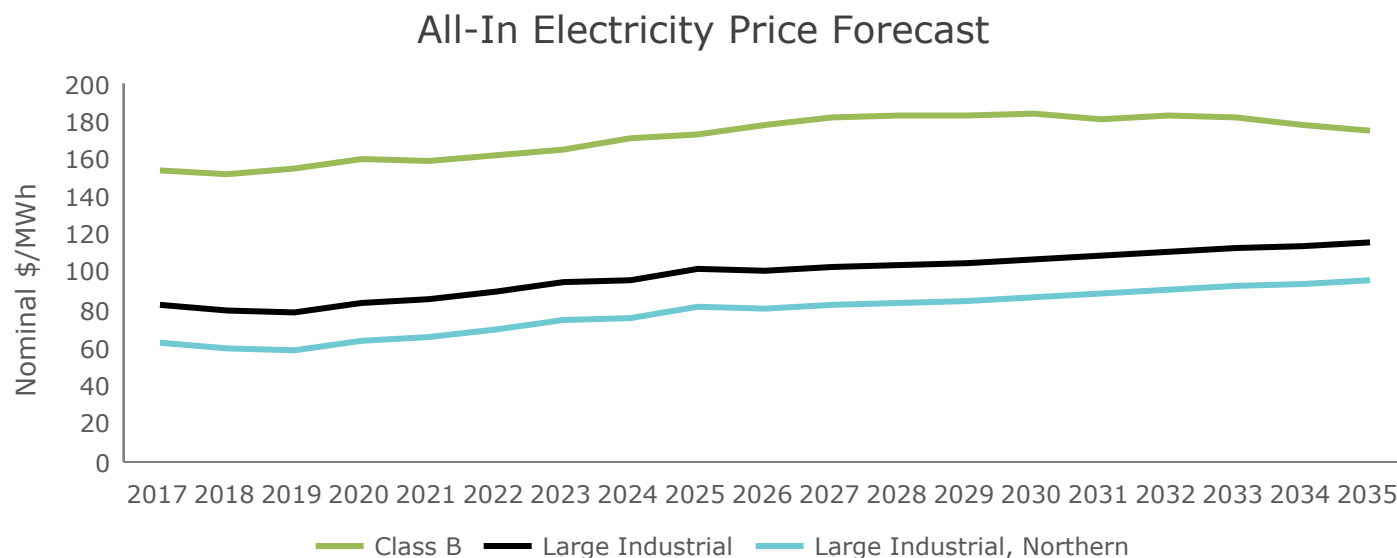
Indicative Electricity Commodity Cost for Class A by Sector and Average Class B



Note: Estimates reflect year-to-date October 2017 reflecting average HOEP and GA. Based on estimated averages for transmission-connected Class A consumers by industrial sector, and based on average weighted HOEP for Class B and actual Class B GA.

Context – Industrial and Commercial Price Forecast

- The 2017 LTEP price outlook for industrial electricity consumers reflects average increases in line with inflation over the forecast period.
- Class B consumers are forecast to see increases just below the rate of inflation, but starting at a higher point than Class A.



Note: Large industrial as per the 2017 LTEP. Commodity price based on forecast HOEP and GA averaged across Class A. Actual prices for Class A are dependent on each consumer's participation under ICI. Class A above reflects a transmission-connected facility. Participants in the Northern Industrial Electricity Rate Program (NIERP), which is funded through provincial revenues, receive a \$20/MWh reduction.

Note: The Class B represents a Ministry estimate – commodity price based on forecast HOEP and GA for non-Regulated Price Plan (non-RPP) Class B electricity consumers, illustrative distribution charge is based on a 500 kW consumer connected to Toronto Hydro operating 55% of the time and line losses are excluded.

Overview of Rate Mitigation Activities To Date

- Several initiatives have been undertaken to reduce costs for Class A and B consumers:
 - Expansion of eligibility for the Industrial Conservation Initiative (ICI) to 1 MW for consumers in all sectors, and to 500 kW for manufacturers and greenhouses;
 - Shifting the cost of electricity support programs from the rate-base to the tax-base, representing a reduction of approximately \$3/MWh for all consumers; and
 - Removal of the Debt Retirement Charge (DRC) from all bills, effective as of April 1, 2018. This will save all non-residential consumers \$7/MWh.
 - In addition, many Class A and B consumers have also taken advantage of ongoing energy efficiency programs to reduce electricity bills through conservation programs such as saveONenergy.
- In Fall 2017, Ontario partnered with the Ontario Chamber of Commerce (OCC) to deliver targeted outreach to the business community to enhance energy literacy and awareness (e.g., energy program to lower electricity prices). Further initiatives are planned with the OCC and the Canadian Manufacturers and Exporters (CME) through 2018.
- As announced in the 2017 LTEP, the Ontario Energy Board (OEB) is currently investigating Class B rate design, including the potential for a GA charge that would vary with time-of-use for non-RPP Class B consumers, similar to the on and off-peak rates paid by residential consumers.

Rate Mitigation Options for Consideration

- The proposed options could either reduce prices for all electricity consumers or a subset of Class A and Class B (i.e., industrial and commercial consumers).
 - Proposed options assume that funding would come from the tax-base and not the rate-base.
- Options for consideration include:
 1. Tax-based program to lower SMEs electricity rates (i.e., Power for Jobs);
 2. Ontario Rebate for Electricity Consumers (OREC)-style rebate program; and
 3. Additional Northern Industrial Electricity Rate Program (NIERP) funding. Note: MNM have prepared a proposal for and Treasury Board/Management of Cabinet consideration.
- Consideration could be given to combining some of the above options to provide both broad and targeted relief.

1. Tax-Based Program to Lower SME Electricity Rates

- MEDG has initiated discussions with the Ministry of Energy on the development of a new tax-based program to support economic development in Ontario by offering an electricity cost subsidy (i.e., rebate). The proposal has yet to be refined and could apply to:
 - All SMEs and non-profit organizations;
 - Non-service sector SMEs;
 - Strategic sector SMEs (e.g., manufacturing, select primary industries, sectors with risk of leakage);
 - Electricity intensive enterprises (e.g., mining); and
 - New businesses and/or investments to existing businesses in Ontario.
- MEDG has indicated that the cost of the subsidy (i.e., rebate) could equal the difference between an eligible participant's actual electricity rate and a guaranteed rate.

Considerations

- A guaranteed electricity price would provide eligible participants certainty with respect to electricity prices (i.e., especially those in electricity-intensive sectors such as manufacturing and mining).
- Currently, it is unclear what the level of participation and cost will be for the new program. Further program scoping by MEDG is required to inform the development of a cost estimate for the program.
 - Fiscal impacts would vary depending on the design of the strategy. The program cost could range from \$50 million to \$500 million per year depending on level of participation (i.e., the total volume of electricity consumption).
- Due to natural fluctuations in the electricity market, program costs could be subject to fluctuation that could create a degree of uncertainty for the fiscal plan. To mitigate such uncertainty, total annual program cost could be capped similar to what is done for other tax-based programs (e.g., Northern Industrial Electricity Rate Program). In addition, once implemented, such a subsidy may be difficult to phase out despite the intended term length of potentially five to ten years.

2. OREC-Style Rebate Program

- The Ontario Rebate for Electricity Consumers (OREC) has been successful at providing relief for residential and small business consumers. OREC is a permanent, tax-based program that provides an 8 per cent on-bill rebate on pre-tax electricity consumption.
- An OREC-style program could be developed for all consumers not eligible for OREC (including commercial and institutional consumers) or targeted at industrial consumers.

Considerations

- Depending on the value of the rebate, an OREC-style program would likely represent a significant expenditure for government. OREC is currently forecast at approximately \$900 million annually under current market conditions and covers about half of electricity consumption in the province.
- Once such a rebate is implemented, it would be very difficult to phase out. When the 10 per cent Ontario Clean Energy Benefit (OCEB) ended in 2015, it caused residential electricity bills to increase, leading to calls for additional price relief and the development and implementation of OREC.
- An OREC-style program would likely be relatively straightforward to implement, since LDCs have experience administering OREC and OCEB.

3. Additional NIERP Funding

- The Ministry of Northern Development and Mines (MNDM) is seeking to amend NIERP to introduce a new investor stream that would be open to existing and new participants that are intending to make major capital investments in their operations in Northern Ontario.
- Enhancements to program parameters would include minimum capital investment thresholds and minimum job retention / creation targets in order to be eligible for the stream. This expansion would require an increase of up to \$50 million to the current allocation of \$120 million beginning in 2019/20.

Considerations

- Large mining companies have indicated the need to make significant investments in their facilities in order to expand operations and to avoid any loss of jobs over the next few years (e.g. Glencore – Sudbury \$1.5 billion; Vale – Sudbury \$3.5 billion; Goldcorp – Timmins \$1 billion).
- MNDM would report back to Cabinet and Treasury Board/Management Board of Cabinet with parameters developed for the investor stream category in fiscal 2018-19. MNDM will also seek legal input (i.e., trade law risk).
- If additional assistance is provided to one sector (i.e., mining), companies in other sectors will seek similar treatment, further increasing the cost to government/taxpayers.

Considerations / Next Steps

- Electricity costs in Ontario have increased over the last decade, following necessary investments in electricity generation, transmission and distribution.
 - Despite recent rate mitigation efforts, Class A and Class B electricity consumers continue to raise concerns that the cost of electricity is impacting their competitiveness.
- Class A and Class B electricity consumers have benefited from shifting the cost of electricity support programs from the rate-base to the tax-base (i.e., approximately \$3/MWh). In addition, removal of the DRC from all bills, effective as of April 1, 2018. This will save Class A and Class B consumers \$7/MWh.
- Ministry of Energy staff have been working with other ministries, agencies and stakeholders to address the rate mitigation concerns of Class A and Class B Consumers. This work has focused on:
 - Enhancing access and/or promotion of existing rate-base programs (i.e., ICI and saveONenergy),
 - Exploring Tax-based funded programs to support economic development in Ontario by offering an electricity cost subsidy;
 - Reviewing Class B rate design through the OEB,
 - Partnering with the OCC / CME to deliver targeted outreach to the business community to enhance energy literacy and awareness.

Appendix

SaveONEnergy – Overview

- Through saveONEnergy, many Non-RPP Class B consumers have already taken advantage of energy efficiency programs to reduce electricity bills.
- Although saveONEnergy programs like Process and Systems Upgrade Incentive (PSUI) exist, these programs generally require significant investment on behalf of the customer in addition to the incentives.
- For Class B manufacturers whose electricity consumption is primarily based on process activities (e.g., injection moulding, welding, etc.), traditional conservation measures like lighting and ventilation upgrades have limited benefit.

