

MEETING NOTE

NAME OF ORGANIZATION: Ontario Chamber of Commerce
DATE/TIME OF MEETING: Monday, November 14th, 2016
LOCATION OF MEETING: TBD

ATTENDEES: **Minister of Energy**
Glenn Thibeault

Ontario Chamber of Commerce (OCC)
TBD

ANTICIPATED AGENDA ITEMS:

1. Electricity prices
2. Global Adjustment
3. Cap and Trade

NOTES ON AGENDA ITEMS:

1. Electricity prices

- OCC is likely to raise the issue of increasing electricity prices and the associated impact on the profitability of its members' businesses.
- OCC's July 2015 report featured survey results indicating that 1 in 20 businesses in Ontario will close their doors in the next five years due to electricity prices.

Suggested Response:

- Our government continues to ensure a clean, modern and reliable electricity system for all Ontarians.
- Prices are increasing because our energy system is being transformed – we are making needed investments to modernize our electricity 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.

- Indicative industrial electricity prices in northern and southern Ontario are less than the United States average as reported by the U.S. Energy Information Administration.
- To help ease pressure on businesses, the government is removing the Debt Retirement Charge (DRC) for all non-residential consumers on April 1, 2018.
- Effective January 1, 2017, eligible residential, small business and farm electricity bills will receive a rebate on bills of 8% before-tax, equal to the provincial portion of the HST.
- As announced in the September 2016 Throne Speech, we are proposing to lower the Industrial Conservation Initiative (ICI) threshold to 1 MW and remove sector restrictions so that more consumers can benefit.
- For increased transparency of electricity pricing we have implemented the Ontario Energy Report, a quarterly report that provides an up-to-date snapshot of Ontario's energy sector.
- In addition, the government has taken significant steps to make Ontario's business tax system more competitive and create the conditions for long-term economic growth.
- I encourage you to participate in the development of the Long Term Energy Plan by sharing your feedback on the Environmental Registry and participating in the upcoming consultation sessions.

Electricity Rate Mitigation – Overview

- Measures in place to mitigate industrial electricity prices and maintain competitiveness include:
 - Industrial Conservation Initiative (ICI);
 - Industrial Electricity Incentive (IEI);
 - Northern Industrial Electricity Rate Program (NIERP);
 - Industrial Accelerator Program (IAP);
 - SaveONenergy for Business Program; and
 - Demand Response.

Ontario Rebate for Electricity Consumers Act, 2016

- On September 15, the Minister of Energy introduced Bill 13, the *Ontario Rebate for Electricity Consumers Act, 2016*, that puts in place an ongoing

8% rebate for residential, small business customers and farms. The 8% rebate would be equal to the provincial portion of HST.

Bill 13 passed third reading on October 19, 2016 and has received Royal Assent. It is scheduled to come into force on the later of January 1, 2017.

- **This measure will be available to all consumers eligible for the Regulated Price Plan (RPP), including farms and small businesses.**
- **This rebate will be in addition to the input tax credits that are already claimed by many of these consumers for the HST paid on electricity bills.**

saveONenergy for Business

- **saveONenergy for Business electricity conservation programs offered by local distribution companies offers distribution-connected customers financial incentives for audits, retrofits and process and systems improvements to help businesses better manage their electricity use.**

Background:

Note: OCC's 60,000 members range small and medium sized enterprises to multinational corporations.

OCC Report (July 2015) Empowering Ontario – Report Recommendations

- **OCC's report featured the following five recommendations:**
 1. **Increase transparency of electricity pricing and system cost drivers**
 2. **Keep the Debt Retirement Charge on residential bills until it has been retired**
 3. **Incentivize voluntary consolidation of local distribution companies through multiple channels**
 4. **Move away from a central procurement model to a more competitive capacity market structure**
 5. **Unlock the power of smart meter data by capitalizing on meter data analytics at a province-wide level**

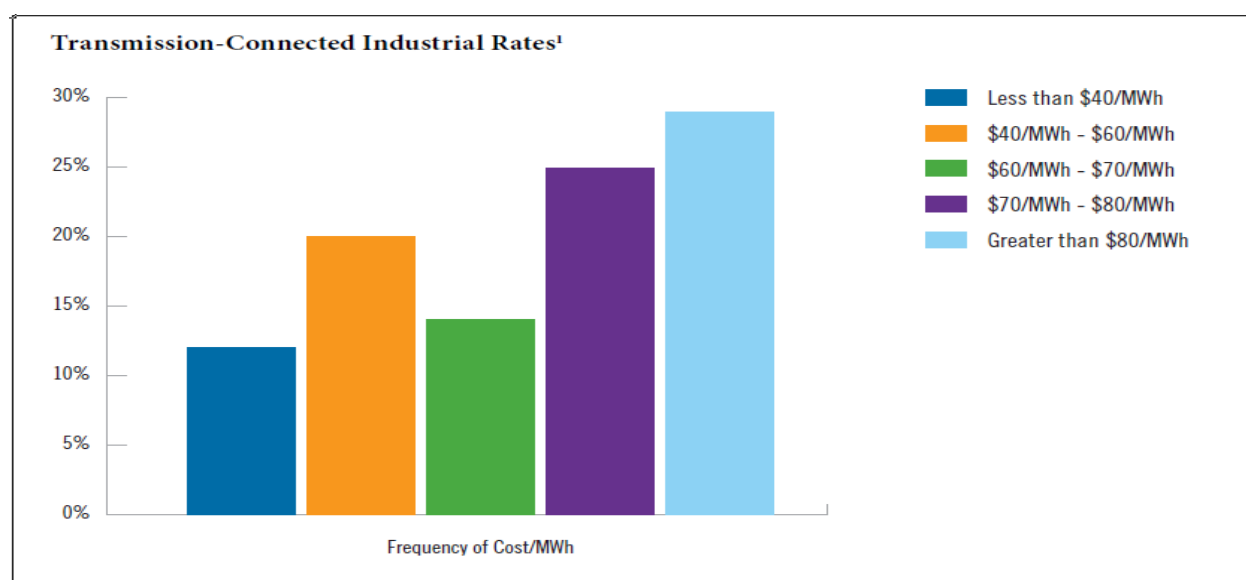
Ontario's Price Mitigation Programs

Program	Description
Industrial Conservation Initiative (ICI)	Encourages Ontario's largest consumers to reduce consumption during peak periods to save up to one-third on their electricity bills.
Industrial Energy Incentive (IEI)	Provides reduced electricity rates for companies starting or expanding operations in Ontario. New contracts were awarded under the program in early 2015.
Northern Industrial Electricity Rate Program (NIERP)	Assists Northern Ontario's largest industrial electricity consumers to reduce energy costs, sustain jobs and maintain global competitiveness. On average, industrial electricity prices can be reduced by up to 25 per cent through the program.
Industrial Accelerator Program (IAP)	Provides financial incentives of up to \$10 million (for capital projects) to transmission-connected electricity consumers, to invest in energy-efficiency or self-generation projects that reduce the amount of electricity withdrawn from the provincial grid.

Industrial Prices in Ontario Energy Report (OER)

- The Q2 2016 Ontario Energy Report (OER) provides information on prices paid by industrial electricity consumers.
- Exhibit 1, from the OER, shows that in 2015, most **transmission-connected** electricity consumers paid all-in prices between \$40/MWh and \$80/MWh.
 - Transmission-connected consumers tend to be large to very large (i.e., 5 to 100 MW and up) and engaged in energy-intensive sectors such as pulp & paper, mining, steel and chemicals.

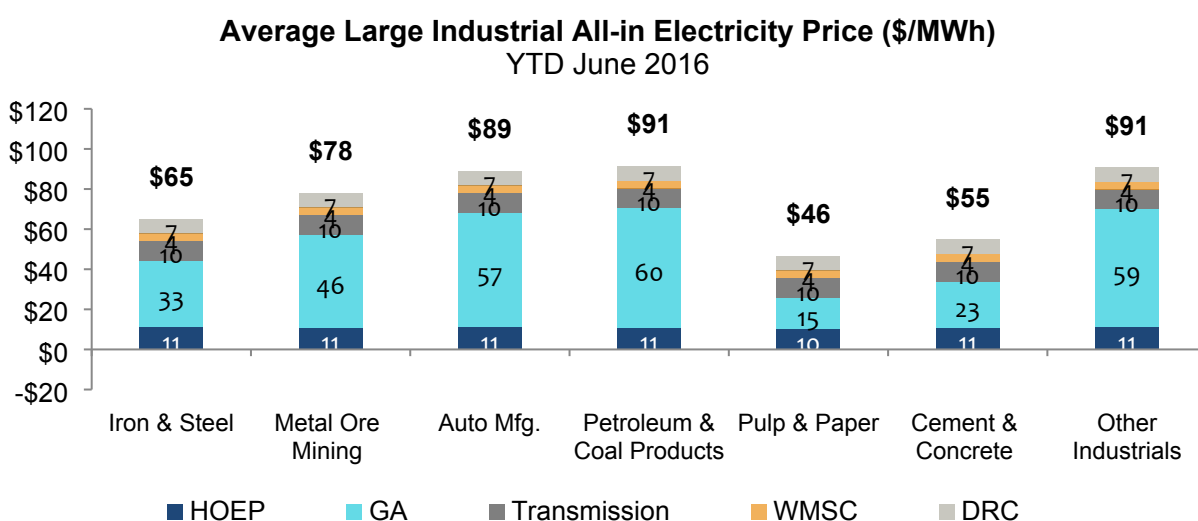
Exhibit 1: All-in electricity price for transmission-connected consumers, 2015



Ontario All-In Prices by Industrial Sector

- Exhibit 2 shows estimated average all-in electricity prices by sector for the year-to-date June 2016

Exhibit 2: Average all-in Class A, transmission-connected electricity prices by industrial sector (estimated), year-to-date June 2016



- In addition, prices vary across sectors mainly due to differences in the level of Global Adjustment paid, which in turn reflects both the ability and willingness of companies to lower usage in the highest demand hours.

Ontario Prices Compared to Other North American Jurisdictions

- Based on publicly posted electricity prices and current exchange rates, Ontario prices are above the Canadian average, but lower than the U.S. average (See Pricing Comparison chart below).
- Maryland, New Jersey and California are examples of U.S. states with industrial electricity prices that are higher than Ontario's.
- Some large industrial consumers in Ontario are able to pay a lower price than the published price, through participation in programs such as:
 - Industrial Conservation Initiative (ICI);
 - Industrial Energy Incentive (IEI);
 - Industrial Accelerator Program (IAP); and
 - Demand Response initiatives.
- Likewise, some U.S. jurisdictions may have programs that lower the effective cost of electricity below posted rates.

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.

2. Global Adjustment (GA)

- OCC has raised general concerns with GA, including the view that GA is a driver of increasing electricity costs in the province.

Suggested Response:

- **The Global Adjustment is a variable monthly charge and cost recovery mechanism used in Ontario's electricity market. All consumers pay GA.**

- **GA serves a number of important functions in Ontario's electricity system:**
 - Provides more stable electricity prices for Ontario's consumers and generators;**
 - Maintains a reliable energy supply; and**
 - Recovers costs associated with conservation initiatives and demand management programs that benefit all Ontarians.**
- **The costs that are recovered by GA have to be recovered, either by GA or by some other means.**
- **For electricity consumers on OEB's Regulated Price Plan (RPP), GA is included in their "Electricity" charge. For all other consumers who purchase directly from the wholesale market, or have signed a contract with an electricity retailer, GA is shown as a separate line item on their electricity bill.**
- **GA does fluctuate from month to month, however, the all-in commodity price is reasonably stable.**

Background:

- GA was introduced in 2005 to support the move to long-term contracting with generators. This was necessary in order to attract much needed investment in Ontario's electricity generation sector.
- GA is designed to ensure price stability for consumers and greater revenue certainty for generators. GA also recovers costs associated with conservation initiatives and demand management programs that benefit all Ontarians.
- For consumers on OEB's Regulated Price Plan (RPP), GA is included in their "Electricity" charge. For all other consumers who purchase directly from the wholesale market, or have signed a contract with an electricity retailer, GA is shown as a separate line item on their electricity bill.

How is the Global Adjustment Determined?

- GA accounts for the difference between wholesale market prices and the regulated and contracted prices paid to generators, plus spending on conservation and demand management programs.

- All customers pay GA. Costs that go into GA include:

The Independent Electricity System Operator (IESO) contract costs: Clean Energy Supply contracts (i.e., natural gas), Renewable and Feed-In-Tariff (FIT) supply contracts (e.g., wind, solar etc.), Bruce Power contract and IESO conservation expenditure;

Regulated payments for Ontario Power Generation nuclear and hydro; and

Other contractual costs such as: Payments to Non-Utility Generators (NUGs) under contract to the Ontario Electricity Financing Corporation (OEFC).

Amendments to the Global Adjustment Mechanism – Ontario Regulation 429/04

- Since January 2011, GA has been allocated to two separate classes of consumers:

Class A consumers, whose average monthly peak demand exceeds 5 MW, pay global adjustment based on their consumption during the five peak hours of the previous year.

All other consumers (i.e., Class B) are charged global adjustment on a volumetric basis (i.e., flat rate \$/MWh).

- Class A status was extended in 2015 to select electricity-intensive consumers with monthly peak demand that exceeds 3 MW (e.g., refrigerated warehousing, greenhouses and data processing).
- Ontario is proposing to expand ICI to include customers with monthly peak demand greater than 1 MW. In addition, sector restrictions would be removed so that more consumers would be eligible to participate.

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

Companies that opt-in to ICI would see the impact in July 2017.

3. Cap and trade

- OCC representatives may bring forward concerns about the impact of cap and trade on its members.

Suggested Response:

- **Ontario has been taking strong climate-positive actions for years, such as successfully eliminating coal as a source of electricity generation and developing a long-term energy plan that focuses on a safe, clean, reliable and affordable energy future.**
- **The Climate Change Action Plan (CCAP) indicated a desire of using cap and trade proceeds to keep electricity rates affordable.**
- **In September 2016, Ontario committed that non-residential consumers will receive a benefit via the Greenhouse Gas Reduction Account as part of the CCAP.**
- **The Ministry of Energy continues to work with the Ministry of the Environment and Climate Change (MOECC), Independent Electricity System Operator (IESO) and Ontario Energy Board to implement proceeds recycling.**

Background:

- In May 2016, Ontario passed the Climate Change Mitigation and Low-Carbon Economy Act, 2016 and posted its final cap and trade regulation (O. Reg. 144/16) and guideline. The legislation and regulation/guidelines establish the basis for Ontario's cap and trade program and came into effect in July 2016.
- On January 1, 2017, the government intends to implement cap and trade. The cap and trade program is a market-based program with targets (caps) that increase and get more stringent over time.
- Ontario's caps are set at a broader economy-wide level rather than by sector.
- In certain circumstances, some consumers will not have the carbon cost passed on to them by the fuel distributor, if their emissions associated with fuel combustion are already captured under cap and trade (e.g., in the case of "Large Final Emitters", discussed further below) or they are voluntary participants.
- Large Final Emitters (LFEs) are defined as mandatory participants and emit at least 25,000 tonnes of CO₂e (carbon dioxide equivalent) per year or more.
- Voluntary participants are commercial and/or industrial customers who emit between 10,000 and 25,000 tonnes of CO₂e per year and who choose to participate directly in the program.
- Under the cap and trade regulation/guideline, MOECC will apply a formula-based approach to determine the quantity of allowances that eligible participants would

receive free of charge.

- Emissions from fossil fuel use (e.g., natural gas, diesel, etc) at their facilities will count against their “facility emissions cap” (for which they will receive free allowances over the first compliance period).
- Mandatory and voluntary participants are responsible for purchasing allowances to cover the emissions above free allocation amount.

Electricity Impacts

- Emissions from electricity generation would be subject to a carbon price through the cost of fuel. Natural gas-fired electricity generators are expected to pass on the cost of carbon through increased offers into the wholesale electricity market.
- Carbon costs will be discernable to utility customers in order to provide transparency and cost certainty.

Ratepayer Impacts and the Use of Auction Proceeds

- The magnitude of the impact depends primarily on how proceeds are recycled back into the electricity system.
- The 2016 Climate Change Action Plan (CCAP) includes specific action to keep electricity rates affordable by using auction proceeds to offset the cost of GHG emissions reduction initiatives that are currently funded by all electricity consumers.
- Recycling cap and trade proceeds would mitigate bill impacts of committed investments such as conservation which help reduce emissions in Ontario.
- ENERGY continues to work with MOECC, IESO, MEDG and MNMD regarding the implementation of proceeds recycling into the electricity sector.

Timeline

- The OEB’s Regulatory Framework addresses cost assessment, confidentiality, cost recovery, billing, monitoring and reporting, and customer information.
- By November 15, 2016 regulated natural gas utilities are to file their Compliance Plans with the OEB. The OEB is to establish interim charges for each utility by January 1, 2017 when cap and trade comes into effect. A review of the Compliance Plans will follow. A full review of the effectiveness of the framework will be undertaken before the end of the first compliance period (i.e., before December 2020).

- The first auction of emission allowances will be held in March, 2017. This would be a stand-alone Ontario auction and would not be linked with Quebec and California. Post-alignment, auctions with Quebec and California will be held every quarter. As a regulated entity, costs incurred by gas distributors to comply with the cap and trade program would be passed on to natural gas consumers once approved by the Ontario Energy Board (OEB).
- On June 8, 2016, Ontario released its five-year Climate Change Action Plan (CCAP) designed to help Ontario take steps to transition to a low-carbon economy. The CCAP is integral to defining how cap and trade auction proceeds from the first compliance period (2017-2020) will be spent to fund actions to reduce GHG emissions.