MEETING NOTE

NAME OF ORGANIZATION:	ASSOCIATION OF MAJOR POWER PRODUCERS IN ONTARIO (AMPCO)
DATE/TIME OF MEETING:	Friday, March 31st / 10:00 – 10:45 AM
LOCATION OF MEETING:	900 Bay Street, 4th Floor, Hearst Block, DMO Boardroom

---

PURPOSE: **To understand AMPCO's position on Ontario's Fair Hydro Plan**

ATTENDEES: **Deputy Minister of Energy**
Serge Imbrogno

AMPCO
Colin Anderson, President

LAST MEETING: The Minister met with AMPCO in February 2017.

ANTICIPATED AGENDA ITEMS (OR 'AGENDA' IF WE HAVE RECEIVED ONE):

1. Ontario's Fair Hydro Plan
2. Electricity Prices
3. Long-Term Energy Plan

NOTES ON AGENDA ITEMS:

1. Ontario's Fair Hydro Plan

- AMPCO will likely express disappointment that government is <u>not</u> proposing to do more to lower prices for large industrial consumers.
- AMPCO will be pleased, however, that regulatory charges would be decreased and government has committed to working with the province's agencies to identify opportunities to drive efficiency and productivity improvements.

<u>**Suggested Response:**</u>

- **We recognize the importance of electricity prices for industrial consumers. Maintaining competitiveness with respect to energy costs is a top government priority.**

- **The government recently announced Ontario's Fair Hydro Plan, which proposes new measures to lower electricity bills by 25 per cent for residential customers, as well as initiatives to reduce costs for small businesses and industrial consumers.**

- **We are proposing to shift the cost of the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP) Program from being paid through electricity bills to being paid for through provincial revenues. This action would provide a benefit of approximately $3/MWh for all consumers.**

<u>Background:</u>

Ontario's Fair Hydro Plan

- On March, 2, 2017, the government announced Ontario's Fair Hydro Plan, which includes:

    - A benefit from the funding of support programs through provincial revenues for all electricity consumers.

    - Electricity consumers eligible for the Regulated Price Plan (RPP) would receive Global Adjustment (GA) refinancing.

    - Small manufacturers would become eligible to participate in the Industrial Conservation Initiative.

    - Sector efficiency would be improved and Ontario's electricity market would be modernized, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Shifting Support Programs to Provincial Revenues

- The Fair Hydro Plan also proposes to shift the cost of the OESP and RRRP programs from being paid through electricity bills to being paid for through provincial revenues. This would cost the government up to $2.5 billion over the next three years and would provide a benefit of approximately $3/MWh for all consumers.

GA Refinancing

- The majority of the province's electricity generators have 20-year contracts. Many of these generators will have generating assets that are expected to operate past their contract term, meaning that these assets are expected to have ongoing useful life and will benefit future electricity consumers by reducing the need to finance the development of new generating assets.

- Refinancing a portion of GA would provide significant and immediate rate relief by spreading the cost of electricity investments over a longer period.

2. Electricity Prices

- AMPCO's primary concern is electricity affordability. AMPCO is in favour of more price mitigation programs and proceeding with IESO's Market Renewal initiative.

- AMPCO has also suggested that tax revenues could be allocated to electricity system costs to reduce prices.

Suggested Response:

- **Indicative industrial electricity prices in Ontario are broadly in line with the United States average as reported by the U.S. Energy Information Administration.**

- **Government has taken a number of actions to reduce electricity ratepayer costs.**

    - **As just one example, suspending the second round of the Large Renewable Procurement (LRP II) process and the Energy-from-Waste Standard Offer Program is expected to save up to $3.8 billion in costs relative to the LTEP 2013 forecast.**

- **The Debt Retirement Charge (DRC) is scheduled to end for commercial, industrial and other non-residential electricity users on April 1, 2018.**

- **While I recognize that your members see varying benefits due to operational limitations, the Industrial Conservation Initiative (ICI) has been successful at lowering industrial electricity costs.**

Background:

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

Industrial Conservation Initiative (ICI)

- 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.

Northern Industrial Electricity Rate Program (NIERP)

- NIERP provides a price reduction of two cents per kilowatt hour for qualifying consumers.

- Ontario has committed to a permanent NIERP, with continued investment of up to $120 million per year.

3. Long-Term Energy Plan

- AMPCO's primary concern is electricity affordability. AMPCO is in favour of more price mitigation programs, "re-evaluating" the terms of generation contracts and proceeding with IESO's Market Renewal initiative.

- Reliability is also a concern. According to AMPCO, many of its members are now experiencing more transient power issues, with increasing damage to sensitive equipment.

- AMPCO suggests that efforts to de-carbonize the province's economy must be mindful of the impact on electricity prices. Given the small impact of the Ontario electricity sector on climate change, AMPCO recommends that government should consider excluding the electricity sector from carbon pricing post-2020.

Suggested Response:

- **Thank you for your LTEP submission. Electricity affordability is a top priority for government.**

If asked about reliability

- **The Ministry and its agencies are taking steps to ensure continued reliability.**

If asked about climate change

- **As a result of eliminating coal-fired electricity generation and replacing it with refurbished nuclear, natural gas and renewables, Ontario's electricity**

system is well positioned as the province moves towards a low carbon economy.

- **The $3/MWh savings that would be provided by shifting the costs associated with OESP and RRRP to provincial revenues as part of Ontario's Fair Hydro Plan would more than offset the impact of cap and trade on electricity prices for the vast majority of electricity intensive consumers.**

<u>Background</u>

Market Renewal

- The IESO's *Market Renewal* stakeholder engagement is allowing stakeholders to participate in and provide feedback on the development of a work plan for renewing Ontario's electricity market design.

- The work plan will set out specific market design changes to be implemented over the coming years and will define target timelines for completing the work.

- The plan will allow IESO and stakeholders to address known challenges with the existing design while also laying a solid foundation for a more dynamic energy market to meet future needs.

Reliability

- In its LTEP submission, AMPCO notes the distinction between reliability and adequacy (AMPCO is concerned with the former):

    - Adequacy has to do with the ability of the electricity system to supply electrical demand at all times.

    - Reliability means the ability to delivery electricity within reliability standards and in the amount desired and means.

- In its *Enabling System Flexibility* stakeholder engagement, IESO has identified an emerging need for the ability to schedule resources capable of responding within a short time frame in order to manage forecast uncertainty in the real-time energy market.

- The IESO will engage with stakeholders to explore a range of potential solutions for enhanced flexibility in the electricity system.

Cap and Trade – Impact on Electricity Market and Generators

- MOECC, with ENERGY and IESO staff support, is not proposing to provide free allocations to the electricity sector.

- The compliance obligation (point of regulation) is set at the fuel distribution level for all electricity generators.

- Gas LDCs will be responsible for managing carbon allowances for their customers.

    - All emissions from electricity generation are subject to a carbon price through the cost of fuel.

    - The wholesale hourly electricity price (HOEP) is expected to increase as a result of natural gas generators including the cost of carbon in their offers.