MEETING NOTE

NAME OF ORGANIZATION: Canadian Federation of Independent Business

DATE/TIME OF MEETING: November 15th, 2016

LOCATION OF MEETING: TBC

ATTENDEES:

Minister of Energy
Glenn Thibeault

Canadian Federation of Independent Business (CFIB)
TBC

AGENDA ITEMS:

1. Electricity prices
2. Time of Use (TOU) Impact on Business
3. Conservation Programs for Businesses
4. Global Adjustment

NOTES ON AGENDA ITEMS:

1. Electricity prices

- As the voice of small businesses in Canada, CFIB is likely to raise the issue of increasing electricity prices and the associated impact on the profitability of its members' businesses.

- CFIB may suggest that more needs to be done in terms of price mitigation, especially for businesses that are too large to qualify for the 8% rebate and too small to qualify for an expanded ICI.

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

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

- **On November 1, 2016, the Ontario Energy Board (OEB) maintained the same time-of-use prices established in May 2016 for Regulated Price Plan customers.**

- **I am pleased that many of your members will receive a rebate equal to the provincial portion of the Harmonized Sales Tax (HST) as of January 1, 2017.**

- **The *Ontario Rebate for Electricity Consumers Act*, 2016 recently received Royal Assent and is scheduled to come into force on January 1, 2017. This legislation will provide an 8% rebate, equivalent to the provincial portion of HST, for approximately 5 million eligible consumers including residences, small businesses, and farms.**

- **Your members will continue to receive the full benefit of being able to offset HST payable with HST paid on electricity bills.**

- **Our rate mitigation strategy also includes:**

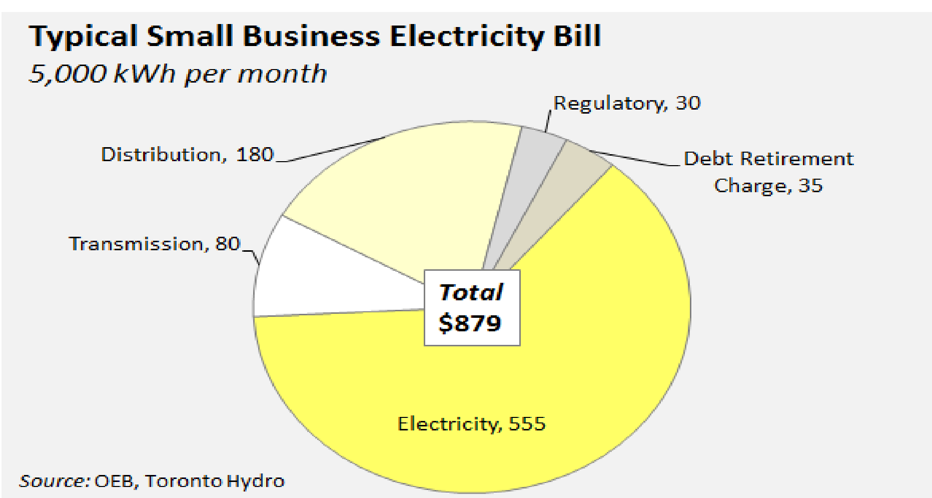
    - **A fixed date for removing the Debt Retirement Charge (DRC) for non-residential electricity users on April 1, 2018, nine months earlier than previously estimated;**

    - **The government's intention "to use a portion of the cap and trade auction proceeds to reduce greenhouse gas (GHG) emissions by helping industrial and commercial electricity consumers use less electricity, which will also help to keep rates affordable".**

- **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 consultation sessions currently underway.**

Background:



Note: Ministry staff understands that the majority of CFIB's members qualify for the Regulated Price Plan and pay time-of-use prices, although a significant portion are too large to be eligible.

Regulated Price Plan (RPP):

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

- RPP prices are 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.

- Time-of-use (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 TOU prices are effective November 1, 2016:

Category	Times	Price	Change
Off-peak	Weekdays 7pm-7am All day weekends and holidays	8.7 c/kWh	-
Mid-peak	Weekdays 11am-5pm	13.2 c/kWh	-
On-Peak	Weekdays 7-11am and 5-7pm	18.0 c/kWh	-

8% Provincial Rebate:

- On September 15, the Minister of Energy introduced legislation, Bill 13, the *Ontario Rebate for Electricity Consumers Act, 2016* (ORECA) that would put in place an 8% rebate for residential, small business consumers and farms. Bill 13 passed third reading on October 19, 2016 and received Royal Assent on November 2, 2016. It is scheduled to come into force on January 1, 2017.

- Under the ORECA, eligible accounts include consumers with a demand lower than 50 kilowatts or an annual usage less than 250,000 kilowatt hours of electricity.

- Electricity vendors, such as local distribution companies (LDCs) and energy retailers, have until July 1, 2017 to deliver the provincial rebate to their customers, including any amounts owing starting from January 1, 2017 -- the start of the rebate eligibility period.

Debt Retirement Charge Removal:

- The Debt Retirement Charge (DRC) was introduced on May 1, 2002 and was provided for under the *Electricity Act*, 1998, until the residual stranded debt is paid. The DRC is payable to the Ontario Electricity Financial Corporation's (OEFC) on electricity consumed in Ontario.
- The residual stranded debt is the stranded debt reduced by the estimated present value of future dedicated revenues to the OEFC such as payments in lieu of taxes from Ontario Power Generation (OPG) and municipal electricity utilities. As of March 31, 2014, the residual stranded debt was $2.6 billion.
- In the 2015 Ontario Budget, the government committed to eliminating the DRC for commercial, industrial and other users as of April 1, 2018. This will follow up on action already taken to eliminate the charge from residential customers, which took effect on January 1, 2016.
    - Consistent with the action to have the DRC end on a fixed date, the regulatory requirement to continue reporting on the residual stranded debt was revoked on February 11, 2016.

2. Time of Use (TOU) Impact on Business

- Small businesses cannot shift demand in response to TOU mid-peak and on-peak periods as the mid-peak and on-peak periods occur during business hours.

<u>Suggested Response:</u>

- **We understand the concerns of CFIB and its members about the difficulties for businesses in shifting their electricity consumption to more affordable off-peak TOU periods.**

- **In addition to available conservation programs that can help businesses manage their usage, the Ontario Energy Board is currently undertaking a comprehensive review of the Regulated Price Plan (RPP), which includes TOU pricing.**

- **As part of its review, the Ontario Energy Board plans to conduct pilot programs from 2017 to 2018 to assess the impact of alternative pricing structures. Results from these pilots will help inform any future decision on changes to TOU rates.**

Background:

- TOU rates are designed to reflect the fact that the cost of producing electricity varies throughout the day. Prices are lower when demand can be satisfied with lower cost sources of generation (e.g. nuclear) and rise as demand increases and more expensive forms of generation (e.g. natural gas) are called upon.

- TOU pricing provides a financial incentive for consumers to reduce or shift their consumption from peak-hours to off-peak hours. At the system-level, reducing peak demand can translate into avoiding or deferring the need for new generation investments.

- The IESO recently completed a three year study (prepared by the Brattle Group), to investigate the impact of TOU on load shifting, conservation and peak demand in Ontario.
    - The study found no consistent evidence of load shifting for general service (GS>50kW) customers.

RPP Review and TOU Pilots:

- The OEB is undertaking a comprehensive review of the Regulated Price Plan (RPP), which includes TOU pricing. As part of its review, the Ontario Energy Board (OEB) plans to conduct pilot programs from 2017 to 2018 to assess the impact of alternative pricing structures. Results from these pilots will help inform any future decision on changes to TOU rates.

- On November 16, 2015, the OEB released its Regulated Price Plan Roadmap identifying a 5-point plan for redesigning the RPP. The OEB expects to implement this plan over the next 3 to 5 years.

    1. Renewing RPP Objectives*:* OEB will update the RPP objectives to place a greater focus on peak demand reduction, efficient system operation and long-run system costs.

    2. Empowering Consumers: Enhancing energy literacy and non-price tools: OEB will explore opportunities to improve TOU communication, launch benchmarking pilots and undertake data collection initiatives aimed at enhancing consumer understanding and ability to respond to a pricing plan.

3. Price Pilots: OEB will design and execute pilots to assess customer response to alternative price structures.

4. Engaging with Low Volume Business Consumers: OEB intends to undertake a significant data collection initiative to better understand the needs of small business consumers.

5. Working with Government to Reduce Barriers: OEB will work with the government and IESO to reduce barriers to set optimal pricing.

3. Conservation programs for businesses

- Rising energy costs are putting a strain on businesses in Ontario.

<u>Suggested Response:</u>

- **Conservation is the cleanest and most cost-effective energy resource, offers consumers a way to manage their energy bills and reduces the need to build new generation, transmission and distribution infrastructure, mitigating upward pressure on energy prices.**

- **Every dollar invested in electricity conservation programs has avoided two dollars in costs to the electricity system.**

- **And an investment of about $790 million in natural gas conservation programs from 2000 to 2014 resulted in about $4.3 billion in savings to natural gas ratepayers.**

- **There are a variety of electricity and natural gas conservation programs available to businesses in Ontario to help them manage their energy costs.**

<u>Background:</u>

- Ontario's 2015-2020 Conservation First Framework and Demand Side Management Framework represent an investment of about $4 billion to support conservation and energy efficiency programs from 2015 to end of 2020 across all sectors of Ontario's economy.
- Ontario has a number of programs in place that help consumers manage rising electricity prices through the installation of energy saving measures, or by using energy wisely. These are delivered by electricity utilities.
- For the commercial and institutional sector (including municipalities, universities, schools, and hospitals):

- saveONenergy Retrofit Program provides various incentives for as much as 50 per cent of project costs, and advanced funding for assisted and social housing buildings, for updating old or inefficient equipment, including lighting, motors, unitary AC or packaged rooftop units, variable frequency drives, and compressed air systems.

- saveONenergy Audit Funding of up to 50% of the cost of an energy audit to identify opportunities for energy efficiency upgrades and eligible incentives.

- saveONenergy Small Business Lighting provides incentives for new energy efficient lighting.

- saveONenergy Process and Systems provides up to $50,000 for engineering studies and up to 70% of capital costs for energy efficiency upgrades.

- saveONenergy New Home Construction is designed to encourage home builders and renovators to construct energy-efficient homes, and includes incentives for installation of energy-efficient measures.

- IESO's saveONenergy TRAINING & 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.

- For the industrial sector:

  - The Industrial Accelerator Program (IAP) assists eligible transmission-connected companies fast track capital investment in major energy conservation projects. The program provides financial incentives to encourage investment in innovative process changes and equipment retrofits to reduce electricity consumption on the provincial system and to help companies become more competitive by positively impacting their bottom line.

  - The Process and Systems Upgrade Initiative (PSUI) is an industrial conservation program available to *distribution-connected* industrial and commercial customers. The program helps organizations with complex systems and processes identify, implement, and validate energy efficiency projects from start to finish.

  - The IESO holds annual demand response auctions which provide availability and utilization payments to successful participants that commit to reducing their consumption when called upon to do so.

- Natural gas conservation programs for commercial (including municipalities, universities, schools, and hospitals) and industrial sectors are delivered by Enbridge Gas Distribution and Union Gas.

- Enbridge Gas and Union Gas both provide incentives for efficient building equipment and systems retrofits such as space heating, water heating and food services.
- Enbridge Gas Run It Right program and the Union Gas Run Smart Building Optimization program analyze a building's energy performance to identify, implement and monitor low- and no-cost operational improvements.

- 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, which 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.

4. Global Adjustment (GA)

- CFIB characterizes GA as a "costly, ever-changing and hidden charge that penalizes small businesses for conserving energy."

- According to CFIB, "the more energy the province collectively conserves the higher the GA will be, because lower demand due to energy conservation drives up the GA."

Suggested Response:

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

- **Ontario is proposing to expand the Industrial Conservation Initiative (ICI) program to include eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW. In addition, sector restrictions would be removed so that more consumers would be eligible to participate.**

- **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.