**MEETING NOTE**

**NAME OF ORGANIZATION:** Northern Ontario Chambers of Commerce

**DATE/TIME OF MEETING:** November 29, 2016

**LOCATION OF MEETING:** TBD

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**PURPOSE:** Discuss energy issues relevant to Northern Ontario businesses.

**ATTENDEES:**

**Minister of Energy**
Glenn Thibeault

**Greater Sudbury Chamber of Commerce**
Ms Debbi Nicholson

**Sault Ste. Marie Chamber of Commerce**
Mr. Rory Ring

**Timmins Chamber of Commerce**
Ms Keitha Robson

**Thunder Bay Chamber of Commerce**
Ms Charla Robinson

**North Bay and District Chamber of Commerce**
Ms Patti Carr

**ANTICIPATED AGENDA ITEMS**

1. Long-Term Energy Plan Update
2. Rate Mitigation and Industrial Program Information
3. Ontario's Cap and Trade Program
4. Conservation and Energy Efficiency Programs
5. Transportation Fuels Market Review
6. OCC 2016 Report on Small Business

## NOTES ON AGENDA ITEMS:

### 1. Long-Term Energy Plan Update

- The Ministry of Energy is beginning to develop the next Long-Term Energy Plan (LTEP), which sets out the direction for Ontario's energy future.
- The LTEP consultation and engagement process is now underway. In-person consultation sessions are taking place in 16 communities across Ontario in October and November, with parallel sessions in Indigenous communities.

**Suggested Response:**

- **I encourage the Northern Chamber of Commerce and its members to participate in the LTEP engagement sessions, and to submit written proposals through the Environmental Registry for the Ministry's consideration.**

Background:

- On December 2, 2013, Ontario released the updated Long-Term Energy Plan, Achieving Balance and since then has been implementing the plan. The development of the next LTEP will follow the process outlined in the recent legislative changes to the Electricity Act, 1998.
- The LTEP consultations and engagement process officially began on October 13 with the release of the LTEP discussion guide, a schedule of in-person engagement sessions, and the Environmental Registry Notice. Comments will be collected through the Environmental Registry until December 16, 2016.
- LTEP consultation are also supported by an electricity technical report which was released by IESO on September 1, 2016, and a fuels sector technical report which was prepared by an independent third party and released September 30, 2016.
- The schedule of public engagement sessions is available on the Ministry of Energy's website along with a discussion guide and link to the Environmental Registry at https://www.ontario.ca/energytalks.

### 2. Rate Mitigation and Industrial Program Information

- The organizations are likely to raise the issue of increasing electricity prices and the associated impact on the profitability of its members' businesses.
- The Ontario Chamber of Commerce'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:**

- **The Ontario government is taking action to help Ontarians with the cost of everyday living, through a series of measures to reduce electricity bills.**

- **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.**

- **The government also increased the amount of rate protection available to approximately 330,000 eligible rural customers living in low-density areas.**

- **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.**

**In April 2015, Ontario committed to make the level of support for the Northern Industrial Electricity Rate Program (NIERP) permanent for qualifying large northern industrial consumers.**

- **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.**

- **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.**

<u>Background:</u>

- 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.

*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.
    - Eligible accounts, under the ORECA, include residential customers, customers with a demand lower than 50 kilowatts or an annual usage less than 250,000 kilowatt hours of electricity and farm.
    - 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.

*Increase funding for Rural or Remote Rate Protection (RRRP)*

- RRRP is a ratepayer-funded subsidy program that helps offset the higher costs to distribute electricity to Ontario residents who live in rural or remote locations.
- The regulatory amendments, which come into effect on January 1, 2017, will provide an additional $116.4 million support for approximately 330,000 eligible rural customers.
- Combined with the 8% rebate, average customers will see a savings of approximately $45 per month.

*Expand Industrial Conservation initiative (ICI)*

- ICI lowers costs for eligible large electricity consumers that reduce consumption during peak periods. ICI consumers may achieve reductions in their electricity rates by up to one-third depending on their peak demand reductions.
- Under the proposed amendments, the threshold for participation in ICI will be lowered from 3 MW to 1 MW and industrial sector restrictions on participation will be removed.
- The ICI regulatory amendments will be in place on January 1, 2017, with newly eligible electricity consumers having the opportunity to avail themselves of reduced electricity rates from July 1, 2017.

*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.

*Ontario Chamber of Commerce (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

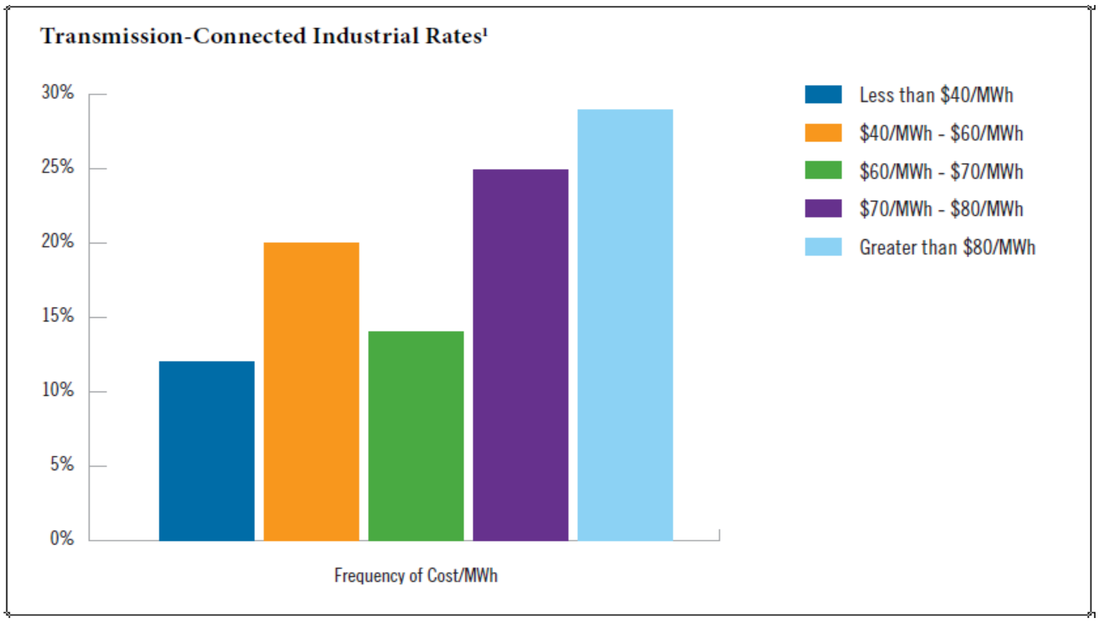
*Ontario's Price Mitigation Programs*

| 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.<br>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.<br><br>Administered by MNDM, NIERP provides tax-based funding of $120 million per year.<br><br>On average, industrial electricity prices can be reduced by up to 20% 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.

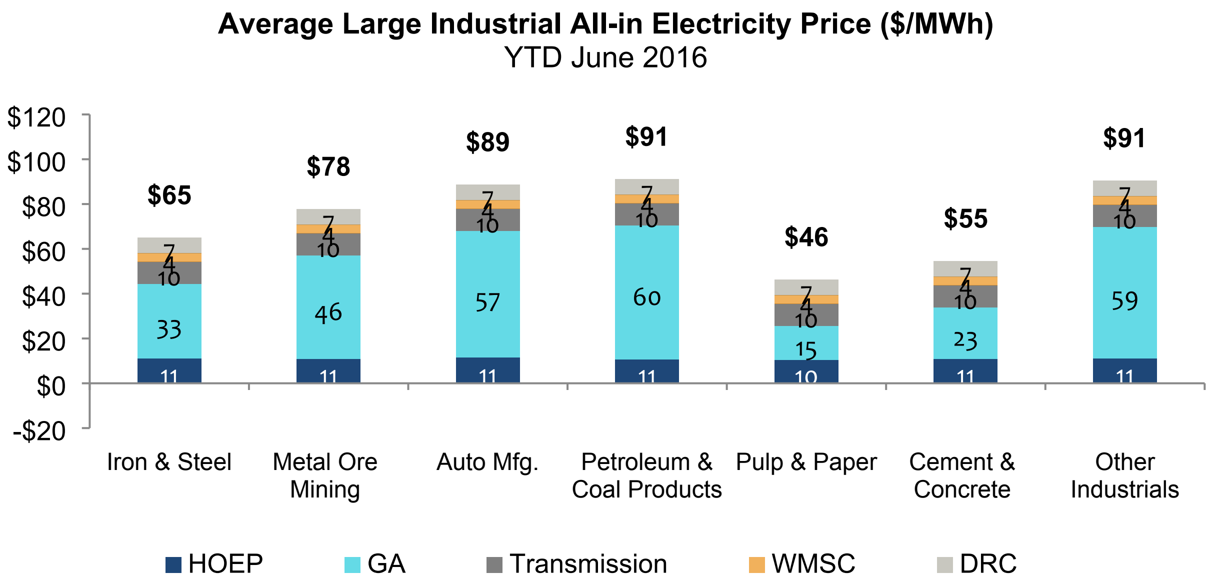
***Exhibit 1*: All-in electricity price for transmission-connected consumers, 2015**



*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.

**3. Ontario's Cap and Trade Program**

- In the context of cap and trade, the organization may raise concerns about uncertainty and risk related to electricity prices.

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

- **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.**

- **In September 2016, Ontario committed that non-residential consumers will receive a benefit via the Greenhouse Gas Reduction Account (GGRA) 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 (OEB) to implement proceeds recycling.**

<u>Background</u>

- On May 18, 2016, Ontario passed the Climate Change Mitigation and Low-Carbon Economy Act, 2016 and on May 19, 2016, Ontario 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, 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 an eligible large final emitter (LFE) will receive free of charge.
  - **Note:** LFEs are entities that emit more than 25,000 tonnes of CO2 per year.
- For LFEs such as mines, 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 at least some free allowances over the first compliance period).
- LFEs are responsible are for purchasing allowances to cover the emissions above free allocation amount.

*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.
- In September 2016, Ontario committed that non-residential consumers will receive a benefit via the GGRA as part of the CCAP.
- While a decision has not been made on the approach or mechanism, ENERGY continues to work with MOECC, IESO and key stakeholders on options and implementation.

*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.

*Timeline*

- In April 2016, the Ontario Energy Board (OEB) began developing its cap and trade regulatory framework for the natural gas sector and held consultations with its natural gas stakeholders and other interested parties.
- On July 28, 2016, the OEB issued an early determination on the bill presentation of charges to recover cap and trade related costs. Those charges are to be included as part of the Delivery Charge on the customer bills.
- On September 26, 2016, OEB issued its cap and trade regulatory framework for the recovery of costs incurred by the rate-regulated natural gas utilities. The OEB's Regulatory Framework addresses cost assessment, confidentiality, cost recovery, billing, monitoring and reporting, and customer information.
- In November 2016, regulated natural gas utilities filed 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 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.
    - The 2016 CCAP also 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.

**4. Conservation and Energy Efficiency Programs**

- Ontario has a number of programs in place that help commercial and industrial consumers manage rising electricity prices through the installation of energy saving measures, or by using energy wisely.

**<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.**

- **Ontario has a number of programs in place that help businesses continue to move forward toward greater efficiency and competitiveness through the installation of energy saving measures, or by using energy wisely.**

Background:

- 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.
- saveONenergy for Business electricity conservation programs, which offer financial incentives for audits, retrofits and process and systems improvements to eligible distribution connected commercial and industrial customers are funded by the Independent Electricity System Operator (IESO) and delivered by local distribution companies (LDCs) under the Conservation First Framework.
- 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 example, LiUNA Local 493 in Sudbury was able to save $5,200 annually on electricity costs by replacing 173 light fixtures with energy efficient LEDs in their 13,550-square-foot office space through the saveONenergy small business lighting incentive. The upgrade not only reduced the lighting electricity consumption by 76% but it also made the facility brighter and more welcoming.

*2016-2020 DSM Programs*

- Examples of programs offered to the commercial and industrial sectors:

  - Prescriptive Incentive Offer (Enbridge and Union): provides financial incentives for a set list of natural gas reducing measures (e.g. furnaces, water heaters, ovens etc.), typically with pre-determined incentive amounts and estimated savings.
  - Custom Incentive Offer (Enbridge and Union): provides financial incentives for customized natural gas reduction projects.
  - Large Volume Program (Union): provides large volume customers[1] a dedicated incentive budget to spend on energy savings projects.

- Through the Union Gas business conservation program, which offers incentives to its municipal, commercial and industrial customers to implement projects that will use natural gas more efficiently, the city was able to install energy-saving equipment in six municipal buildings. The upgrades include equipment such as condensing boilers, heat recovery ventilators and an ozone laundry system, which was installed at Pioneer Manor, a long-term care facility. The City of Greater Sudbury received incentives of $30,000 from Union Gas. In total, the equipment is expected to save the city more than $700,000 in energy costs over its lifespan.

*Demand Response (DR)*

- Demand Response (DR) provides payments to businesses and industry to shift consumption at times when the electricity system is stressed. DR currently provides ~500 MW of capacity to the system.

- The IESO has transitioned DR from a program approach to a market approach. The first DR auction, under a market approach, was held in December 2015. The next DR auction is expected to be held in December 2016.

## 5. Transportation Fuels Market Review

- Ontario is seeking a review of the province's retail transportation fuels market, including gasoline and diesel, to provide more transparency for consumers about how prices are set.

[1]These are customers with average annual natural gas consumption ~200 million m3.

**Suggested Response:**

- **Gasoline prices are a major issue for Ontario consumers. I have heard clearly that the province needs to take a thorough look at the matter. I look forward to reviewing the Ontario Energy Board's (OEB) report on the status of the market in Ontario**

- **Families and businesses have requested more information about how gasoline and diesel retail prices are set. In particular, northern communities have expressed concerns over variations in prices across regions and over time.**

- **The Ministry of Energy currently monitors the supply and price of gasoline in Ontario (and in other jurisdictions) on an ongoing basis and makes this information publicly available through the quarterly Ontario Energy Report and on our public website.**

Background:

- On November 9, 2016, the Minister of Energy asked the Ontario Energy Board (OEB) to conduct a review of the province's retail transportation fuels market and deliver a report to the government.
- The review will focus on three main topics:
    - The extent and causes of retail gasoline/diesel price variations over time and between regions within Ontario;
    - How Ontario compares with pricing and markets in other jurisdictions; and
    - The information available to consumers about pricing and price variations.

- The price of gasoline and diesel in Ontario are understood to be generally affected by world crude oil and North American wholesale markets, leading to price changes in response to supply and demand conditions in these markets. In addition, competitive forces are understood to affect transportation fuel prices at a regional or local level.
- The government and the Ontario Energy Board (OEB) do not licence or set prices or terms and conditions for the transmission, distribution, storage or sale of transportation fuels.
- Overseeing competition in Ontario's gasoline market is the responsibility of the federal Competition Bureau. The bureau is an independent federal agency that promotes compliance with the Competition Act, ensures competition in Ontario's gasoline market and investigates anti-competitive practices, such as price fixing.
- The retail price for gasoline and diesel include the following taxes:

  - Federal excise taxes (10 cents per litre (cpl) for gasoline and 4 cpl for diesel);
  - Provincial fuel taxes (14.7 cpl on gasoline and 14.3 cpl for diesel); and
  - 13% HST on both fuels.

- Through November 7, 2016, year-to-date gasoline prices have averaged 104.1 cpl in northern Ontario cities and 98.5 cpl in southern Ontario cities.
  - These averages are calculated based on the population-weighted prices of the cities in the Ministry of Energy's weekly survey.

- Gasoline prices in Ontario have fallen sharply from 2014 levels in response to the steep drop in crude oil prices.
  - Through November 7, 2016, year-to-date prices in northern Ontario averaged 6.5% and 21.8% below the annual average prices experienced in 2015 and 2014, respectively.
  - Prices in southern Ontario markets experienced a similar decline, with year-to-date prices 5.9% and 22.3 % below the annual average prices experienced in 2015 and 2014.

- In Fiscal 2015-16, gasoline taxes generated $2.46 billion in revenue and other fuel taxes generated an additional $751 million in revenue for Ontario.

### 6. OCC 2016 Report on Small Business

- OCC's 2016 report, *Obstacles and Opportunities: The Importance of Small Business in Ontario*, provides recommendations designed to ensure the future success of small businesses in Ontario.
- According to the report, among input costs, electricity prices are the greatest source of frustration for small businesses in the province.

**Suggested Response:**

- **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.**

Background:

- OCC survey results show that:
  - 33% of small businesses in the province believe that increasing energy prices will have a large impact on their organization, causing them to delay or cancel investment; and
  - 38% of small businesses claim that electricity prices are having the greatest impact on their ability to remain competitive.

- OCC were encouraged by the recent commitments made by Premier Wynne in the Speech from the Throne to reduce electricity costs. OCC views the 8% rebate as a step towards reducing the cost of electricity in the province and intends to continue to work with government to strategize solutions to further reduce these costs wherever possible.

- One of the five report recommendations is to "ensure affordable energy use". OCC notes that:
  - Despite the planned expansion of ICI to 1 MW, many businesses would remain ineligible;
  - The cost of conservation programs are paid for by all ratepayers but tend to benefit larger companies; and
  - Ideally Global Adjustment (GA) would be shown as several line items on electricity bills, for added transparency.

**KEY FACTS:**

- Representatives from five Northern Ontario chambers of commerce are having various meetings in Toronto on November 29-30. The five chambers of commerce are from:
  - Greater Sudbury
  - North Bay & District
  - Sault Ste. Marie
  - Thunder Bay
  - Timmins
- The chambers collectively represent the interests of businesses across Ontario. The group indicates that electricity prices are a primary issue for discussion.