MEETING NOTE

NAME OF ORGANIZATION:	**Canadian Federation of Independent Grocers**
DATE/TIME OF MEETING:	**September 19, 2016**
LOCATION OF MEETING:	**TBC**

PURPOSE:	**To discuss rising electricity prices and available rate mitigation programs.**
ATTENDEES:	**Ministry of Energy**
	Canadian Federation of Independent Grocers TBD

ORGANIZATION BACKGROUND

The Canadian Federation of Independent Grocers (CFIG) is a non-profit trade association founded in 1962 which equips and enables independent, franchised and specialty grocers for sustainable success. It acts as a united voice for over 4000 independent grocery retailers, across Canada, providing programs for operational excellence and fostering relationships among retailers and suppliers.

AGENDA ITEMS

1. **Electricity prices / Global Adjustment**
2. **Rate Mitigation Programs**
3. **Cap and trade**
4. **Time of Use Pricing**

NOTES ON AGENDA ITEMS:

1. Electricity Prices / Global Adjustment

Suggested Response

- Significant investments have been made to modernize and clean our electricity system. We are working hard to minimize the impact of these investments on business competitiveness.

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

- The government also taken significant steps to make Ontario's business tax system more competitive and create the conditions for long-term economic growth.

- The Global Adjustment (GA) is a cost allocation and recovery mechanism. Costs that go into GA are incurred to provide electricity service in the province and must be recovered.

- The 2016 Budget committed to ensuring that the net impact of cap and trade would not result in an overall increase in electricity costs for the average industrial and commercial consumer.

- Ontario is expanding the ICI program to include eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW.

Background

Prices in Ontario Energy Report (OER)

- The Q1 2016 Ontario Energy Report (OER) provides information on prices paid by electricity consumers.

- In 2015, a Class B consumer (e.g., 2 MW) located in Toronto paid about $125/MWh to $130/MWh.

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.

2. Rate Mitigation Initiatives

- Ontario has a number of programs in place that help businesses manage rising electricity prices, including:
    - saveONenergy for Business Program
    - Industrial Accelerator Program (IAP)
    - Demand Response Auction
    - Industrial Conservation Initiative (ICI)

- Ontario is proposing to expand the ICI program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the current threshold of three megawatts. In addition, sector restrictions would be removed and smaller industrial, institutional and commercial businesses would be eligible to participate.

- Ontario introduced legislation that would rebate the provincial portion of the HST from the electricity bills of residential, small business and farms as of January 1, 2017.

Background:

saveONenergy for Business Program

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

- The Process and Systems Upgrade Initiative (PSUI) is 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.

- 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.

- saveONenergy Training and 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.

Industrial Accelerator Program (IAP)

- The IAP assists eligible transmission-connected companies to 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.

Demand Response Auction

- Ontario is aiming to use demand response (DR) to meet 10% of peak demand by 2025.

- In December, 2015, the IESO held its first demand response auction. About 390 MW were procured for the summer commitment period (May 2016 to October 2016) and about 400 MW for the winter commitment period (November 2016 to April 2017).

- Successful DR auction participants receive payments to shift consumption at times when the electricity system is stressed.

- DR currently provides ~500 MW of capacity to the system.

- The IESO will also be running demand response pilot projects to learn more about the operational capabilities of demand response.

Industrial Conservation Initiative

- ICI encourages Ontario's largest consumers to reduce consumption during peak periods to save on average on-third on their electricity bills.

- By reducing the province's peak demand, ICI has the added benefit of reducing cost pressures on electricity prices by deferring the need to build peaking generation.

- Eligible ICI participants include those consumers with monthly peak demand exceeding 3 MW, subject to eligibility requirements. Under ICI, these consumers are charged Global Adjustment on the basis of their share of the total system demand during the highest five peak hours of the year.
    - Currently there are about 300 participating consumers who collectively have reduced Ontario's peak demand by about 1,000 MW.

- Ontario is proposing to expand ICI to include customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW.
    - In addition, sector restrictions would be removed and smaller industrial, institutional and commercial businesses would be eligible to participate.
    - Newly eligible customers would have the opportunity to opt-in to the ICI program.

8% Rebate

- Ontario introduced legislation that would rebate the provincial portion of the HST from the electricity bills of residential, small business and farms as of January 1, 2017.

- The rebate will be available to all consumers eligible for the Regulated Price Plan (RPP).

- The rebate will provide 8% off total electricity costs before taxes, effectively offsetting the provincial portion of the HST. Consumers won't have to do anything to receive the rebate.

3. Cap and trade

Suggested response

General
- In July 2016, Ontario's Climate Change Mitigation and Low-Carbon Economy, Act and cap and trade regulation/guidelines came into effect. The legislation and regulation/guidelines establish the basis for Ontario's cap and trade program. On January 1, 2017, the government intends to implement cap and trade.

Electricity Prices
- 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 elimination of coal-fired generation represents a 30 Mt reduction in greenhouse gas (GHG) emissions since 2003. Ontario's electricity sector is now over 90% emissions-free.

- As a result of these efforts, Ontario's electricity system is in a strong position as we move forward with implementing the province's cap and trade program.

- The government intends to recycle a portion of the cap and trade auction proceeds to offset the cost of committed electricity sector investments and initiatives that reduce GHGs, such as conservation programs.

- Through recycling, the government intends to ensure that electricity costs for the average commercial and industrial consumers will not increase due to cap and trade, and provide a modest benefit of up to $2 per month to the typical residential consumer relative to what they otherwise would have paid.

Natural Gas

- 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 reviewed and approved by the Ontario Energy Board (OEB).

- On March 10, 2016, OEB is in the process of developing a regulatory framework for natural gas distributors' cap and trade compliance plans.

<u>Background</u>

- On April 13, 2015, Premier Wynne announced that Ontario would be putting a limit on greenhouse gas pollution through a cap and trade program.

- 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 cap and trade program, a market-based program with targets (caps) that increase and get more stringent over time, is scheduled to come into effect on January 1, 2017.

- Ontario's caps are set at a broader economy-wide level rather than by sector.

- 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.

- 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.

- 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.

- The Ministry of Energy continues to work with the Ministry of the Environment and Climate Change, Independent Electricity System Operator (IESO) and OEB in implementing an approach regarding the use of proceeds set out in Ontario's climate change legislation, 2016 Budget and CCAP.

4. <u>Time-of-Use Pricing</u>

- The OEB has developed a five-point multi-year Roadmap to redesign the RPP to better respond to policy objectives, improve system efficiency and give consumers greater control.

- This comprehensive revamping of the RPP would make incremental changes over the course of the plan. This staged approach would provide consumers with an adequate amount of time to understand and adapt to any changes in the TOU pricing structure.

- The Ontario Energy Board is currently examining TOU issues related to low volume business consumers and will be issuing guidance about pilots directed at those consumers.

- I would encourage you to engage with the OEB about participating in upcoming TOU pilots targeted to business.

<u>Background</u>

- In Ontario, time-of-use (TOU) pricing applies to all household and small business customers (general service <50kW) on the RPP. The OEB is responsible for setting prices under the RPP.

- TOU rates are designed so the price of consuming electricity reflects the cost of producing it during different periods of demand throughout the day.

    - Prices are lower when demand can be satisfied with lower cost sources of generation (nuclear) and rise as demand increases and more expensive forms of generation (natural gas) are called on.

    - Based on 12 month projections of demand and supply costs, the OEB sets TOU rates every six months in co-ordination with the main shift in the timing of peak demand from Summer to Winter.

- The OEB has developed a five-point multi-year Roadmap to redesign the RPP to better respond to policy objectives, improve system efficiency and give consumers greater control. This comprehensive revamping of the RPP would make incremental changes over the course of the plan. This staged approach would provide consumers with an adequate amount of time to understand and adapt to any changes in the TOU pricing structure.

- One of the major elements of the Roadmap is implementation of pilots for new pricing mechanics and non-price mechanisms. The pilots are essential to (1) determining the best pricing options and structures to achieve policy objectives and empower electricity consumers, and (2) to designing new tools for customers to manage their electricity usage and provide for increased system efficiency. The pricing pilots would test different TOU structures that are not currently permitted by Ontario Regulation 95/05 (Classes of Consumers and Determination of Rates).

- Specifically, O. Reg. 95/05 requires that TOU prices under the RPP have an off-peak period that begins no later than 7pm and ends no earlier than 7am on weekdays and begins no later than 12am and ends no earlier than 12am on weekends and holidays. There are currently no exceptions permitted to this requirement.

- The Ministry of Energy is proposing regulatory amendments would support the OEB in delivering, through local distribution companies (LDCs), pilot programs that test alternative pricing options that are aimed at achieving the RPP objectives of reducing system peak, supporting the achievement of efficient electricity system operation and investment, and enhancing consumer choice and control to give consumers additional incentives and opportunities to reduce their electricity bills.

- The pricing pilots could provide an objective basis to inform future decisions about potential changes to the current TOU pricing structure and pricing periods and any supporting changes to O. Reg. 95/05.

- The amendment proposal has been posted on the Environmental Registry and the Regulatory Registry for 45 days for public comment. All comments received through this process will be taken into consideration when drafting the regulatory amendments.