MEETING NOTE

NAME OF ORGANIZATION: **Ontario Forestry Industry Association (OFIA)**

DATE/TIME OF MEETING: **Tuesday September 20, 2016; TBC**

LOCATION OF MEETING: **TBC**

PURPOSE: To discuss developments in Ontario's electricity sector

ATTENDEES: **Ministry of Energy**
TBC

OFIA
TBC

POSSIBLE AGENDA ITEMS

1. Industrial Electricity Prices
2. New Electricity Rate Mitigation Initiatives
3. Cap and Trade Proceeds Recycling

KEY FACTS:

- OFIA is a provincial trade association representing member companies ranging from large multinational corporations to small, family-owned businesses that produce a broad range of products including pulp, paper, paperboard, lumber, panel board, plywood and veneer.

- OFIA members include AV Terrace Bay, EACOM Timber Corporation, Norampac and Resolute Forest Products.

- OFIA member companies represent approximately 70% of Ontario Crown land that is certified under internationally recognized systems.

NOTES ON POSSIBLE AGENDA ITEMS

1. Industrial Electricity Prices

SUGGESTED RESPONSE

- Significant investments have been made to ensure our electricity sector is clean, modern and reliable. We are working hard to minimize the impact of these investments on industrial competitiveness.

- We recognize the importance of electricity prices, especially for energy-intensive consumers. Industrial competitiveness is a government priority.

- There are a number of existing initiatives available to industrial consumers to help them manage their electricity costs:

  Industrial Conservation Initiative (ICI);

  Industrial Accelerator Program (IAP); and

  Northern Industrial Electricity Rate Program (NIERP).

- The government recently announced the expansion of ICI to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the current threshold of 3 MW. In addition, sector restrictions would be removed and smaller businesses would be eligible to participate.

  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.

  The proposed ICI regulation would be in place by May 1, 2017, allowing eligible companies to benefit beginning July 2018. Eligible must opt-in to participate under ICI.

- The government intends to use a portion of the cap and trade auction proceeds to help keep electricity prices affordable for industrial and commercial electricity consumers.

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

- Ontario's business tax reforms have positioned Ontario as one of the most attractive locations in the industrialized world for new business investment. These measures include:

    The move to the Harmonized Sales Tax (HST), a value-added tax. The HST has removed billions of dollars per year in embedded sales taxes paid by businesses.

    Eliminating Capital Tax, which corporations paid whether or not they had a profit and was a significant disincentive to investment, providing $2.1 billion of tax relief per year; and

    Cutting Corporate Income Tax (CIT) rates for small and large businesses, providing $2.3 billion of tax relief per year.

BACKGROUND

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 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.
Northern Industrial Electricity Rate Program (NIERP)	Provides $20 megawatt per hour (MWh) rebate for qualifying large northern industrial consumers. The province committed to extending the program beyond March 31, 2016.

Expansion of ICI

- Currently, 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 now about 300 participating consumers who collectively have reduced Ontario's peak demand by about an estimated 1,000 MW in 2015.

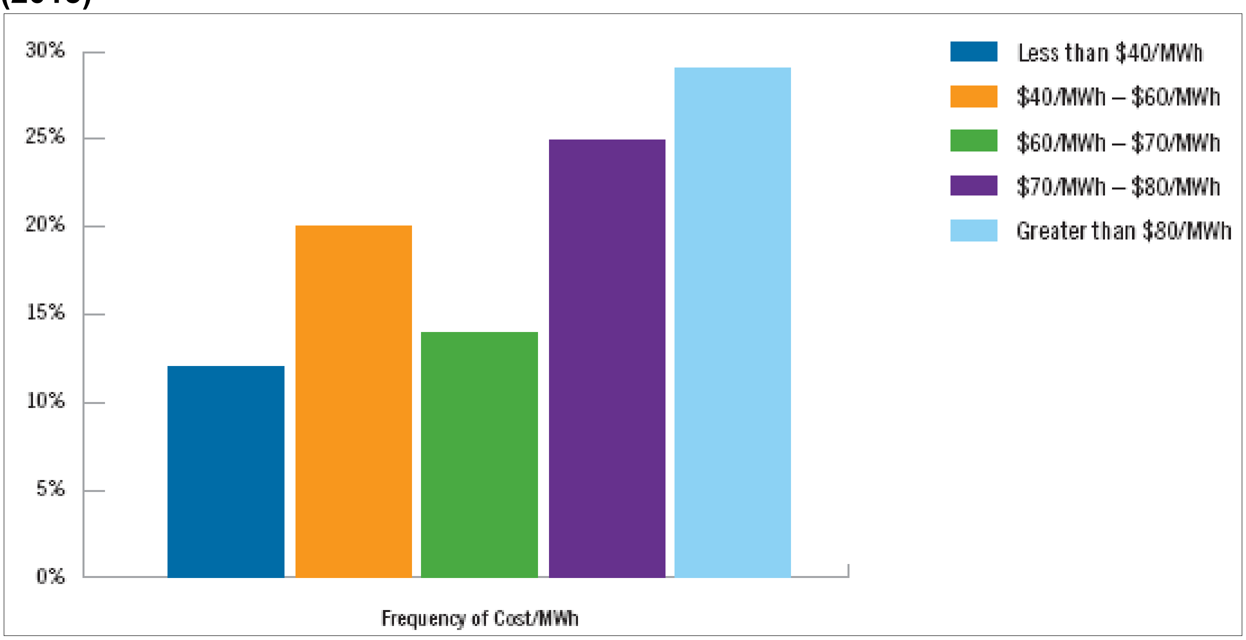
- In September 2016, Ontario announced the expansion of ICI to include consumers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW.

  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.

  The proposed ICI regulation would be in place by May 1, 2017, allowing eligible companies to benefit beginning July 2018.

***Exhibit 1* – All-in Electricity Price for Transmission-connected Consumers (2015)**



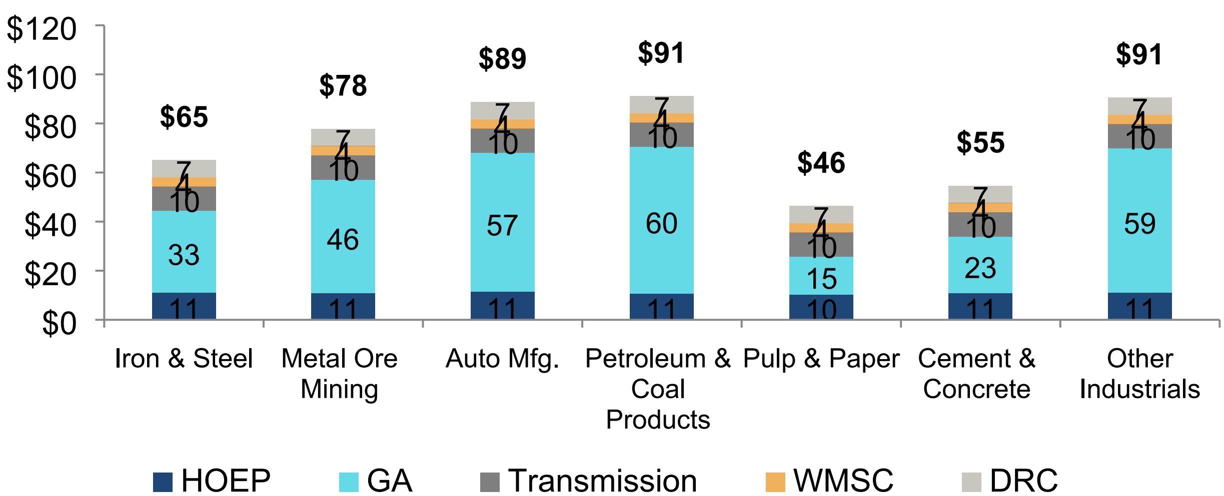
Source: Ontario Energy Report

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. **Note**: Prices do not include the Northern Industrial Electricity Rate program rebates which large OFIA members participate in.

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

***Exhibit 2* – Average All-in Class A, Transmission-connected Electricity Prices By Industrial Sector (Estimated) (Year-to-date June 2016)**



2. Cap and Trade Proceeds Recycling

<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 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.

- ENERGY continues to work with the Ministry of the Environment and Climate Change (MOECC) and the Independent Electricity System Operator (IESO) on the issue of ratepayer impacts under cap and trade.

- The government intends to use a portion of the cap and trade auction proceeds to help keep electricity prices affordable for industrial and commercial electricity consumers.

<u>BACKGROUND</u>

General Background on Cap and Trade

- 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.

- Ontario intends to use cap and trade as a mechanism to support the province's climate change plan and to help meet Ontario's greenhouse gas reduction targets of:

    - 15% below 1990 levels by 2020;

    - 37% below 1990 levels by 2030; and

    - 80% below 1990 levels by 2050.

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

- Ontario intends to join the cap and trade program that Quebec and California have implemented, which was developed under the Western Climate Initiative.

- According to MOECC's timelines, the cap and trade program is scheduled to come into effect on January 1, 2017.

Cap and Trade Ratepayer Impacts

- In the 2016 Budget, the government committed to ensuring that electricity costs for the average commercial and industrial consumer 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.

Treatment of Combined Heat and Power (CHP) under Cap and Trade

- Under the regulation, free allowances would be provided to all large final emitters for the steam and electricity emissions produced via BMG CHP, and all other forms of fossil fuel-fired BMG, for the first compliance period. This approach:

    - Provides equitable treatment for all forms of BMG, including CHP;

    - Aims to ensure that large industrial facilities with BMG or those that buy their electricity from a BMG facility are not treated differently from grid-connected large industrials; and,

    - Avoids the requirement for facilities to have different meters for measuring steam and electricity, which reduces the administrative (and potentially cost) burden of complying with cap and trade.

Energy Supply Policy Division
September 19, 2016