AGENDA FOR GROWTH

Policy playbooks to elevate the region

TORONTO REGION BOARD OF TRADE

ENERGY

POLICY PLAYBOOK

2018 PROVINCIAL ELECTION

THE CURRENT STATE OF ENERGY

Energy is *the* essential commodity in modern society. Homes and businesses rely on a steady supply to keep fridges running, electronics operating at full power and furnaces warming buildings during frigid Canadian winters.

Consumers expect electricity, natural gas and other forms of energy to be cheap and, where possible, environmentally friendly.

In Ontario, gains in reliability and sustainability have been overshadowed by a lack of emphasis on affordability. Necessary investments in infrastructure, closing coal plants, the uncompetitive procurement of green energy and the continual politicization of the energy system at the expense of consumers' long-term interests have combined to create an inflexible system in which prices rapidly increased. The introduction of a carbon price through the cap and trade system promises further increases to the price of fuels such as gasoline and natural gas.

Read our complete analysis & recommendations:
BOT.COM/AGENDAFORGROWTH

WHAT ARE WE PROPOSING?

The ideal energy system carefully balances three competing priorities:

AFFORDABILITY **RELIABILITY** **SUSTAINABILITY**

While there is no simple solution for the energy problems facing Ontario, there is a better way forward. The Board believes this can be achieved by embracing the following principles:

GREATER TRANSPARENCY

INDEPENDENT GOVERNANCE

AN EMPHASIS ON FLEXIBILITY

A STRONG ROLE FOR THE PRIVATE SECTOR & COMPETITION

HOW WE CAN MAKE IT HAPPEN

To achieve an energy system which properly balances affordability, reliability and sustainability, the Toronto Region Board of Trade recommends the following reforms:

- **Improve governance and oversight by empowering the Legislature and independent agencies.**
- **Reorganize energy procurement to make it more competitive and less prescriptive.**
- **Reform energy pricing to make it more transparent.**
- **Increase the role of the private sector in local distribution companies.**
- **Price carbon, but return revenues to businesses and residents through tax relief.**

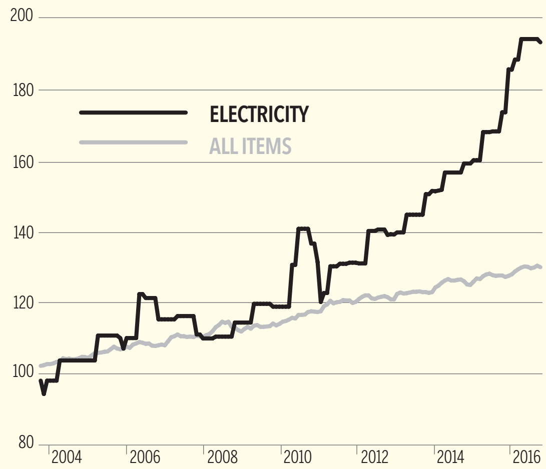
WHY IT SUPPORTS THE AGENDA FOR GROWTH & THE BOARD'S GLOBAL CHAMPION VISION

By making wise decisions now, we can ensure a better energy system both now and for the future.

In order to thrive, the business community must be able to plan for a less political and more predictable energy system that encourages innovation and drives down costs. Putting these policy recommendations into play will introduce the independent governance, open competition and greater private sector involvement that the system needs to achieve this. This will benefit businesses and residents and enhance Ontario's competitiveness in global markets.

HIGH PRICES, POLITICS & A LACK OF INNOVATION

The most immediate challenge facing Ontarians is the rapid increase in electricity prices since 2010. Prices for residents and small businesses have risen between 75–150% (depending on usage and time of day). According to the Association of Major Power Consumers in Ontario, industrial power rates have risen to the highest in Canada and are among the highest in North America, particularly for midrange (Class B) consumers. The new cap and trade program increases the price of natural gas and liquid fuels such as gasoline, further increasing energy costs for consumers.



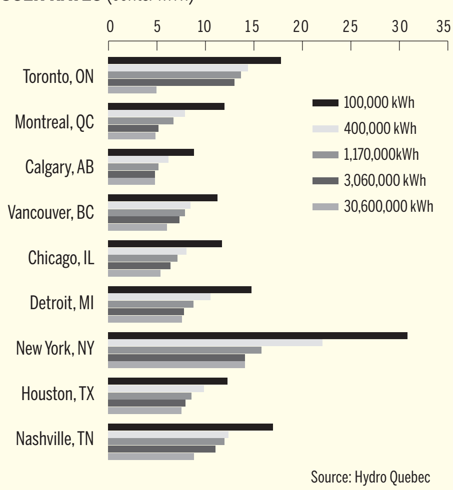
ONTARIO CONSUMER PRICE INDEX, ELECTRICITY VS. ALL ITEMS

Source: Statscan

As the cost of electricity increases faster than inflation, it consumes a larger portion of a business' budget. This can lead to a reduction in spending in areas like payroll and investment, increases in prices for consumers or even cause businesses to relocate or close. Moreover, as energy prices rise faster than competing jurisdictions, Ontario's businesses become less competitive and lose market share, particularly in key sectors such as automotive, aerospace and food & beverage manufacturing.

The government has attempted to address high prices through the *Fair Hydro Plan* and an expansion of the Industrial Conservation Initiative for larger users. Although these policies provide some short-term relief, they do not cover all consumers, shift costs to long-term debt and other users, nor do they address the root problems that caused price increases in the first place.

COMPARISON OF 2016 MEDIUM & LARGE POWER USER RATES (cents/kWh)



Source: Hydro Quebec

Beyond the high cost of electricity, the current system has other problems which contribute to increased costs, consumer frustration and a lack of innovation.

A complicated system for consumers

The current pricing structure, notably the Global Adjustment, makes it difficult to determine what is driving the increase in prices. The conservation programs that can reduce costs for businesses—such as the Industrial Conservation Initiative—are often complicated or require significant investment.

The difficulty of integrating new technologies

A lack of investment, particularly among municipally owned Local Distribution Companies (LDCs) creates barriers to adopting new technologies such as energy storage. Long-term, expensive fixed contracts for generation also reduce flexibility and innovation.

Continued political risk in the energy sector

Governments maintain significant control over the system, from the Province's authority over procurement to municipalities' ownership of LDCs. This can lead to decisions being made for short-term political interests, most famously with the cancellation of two GTA gas-fired power plants, rather than the needs of the system and ratepayers.

THE BURDEN ON MANUFACTURERS & LARGE USERS: → **49% OF CANADA'S TOTAL MANUFACTURING OUTPUT IS HOME IN ONTARIO**

OUR ENERGY PLAY: 5 REFORMS THAT WILL LEAD TO A BETTER ENERGY SYSTEM & LOWER PRICES

1 IMPROVE OVERSIGHT & GOVERNANCE

Provincial and municipal governments often make short-term decisions that place politics first and system needs second. Recent changes to provincial law have further reduced the independence of the Ontario Energy Board (OEB) and Independent Electricity System Operator (IESO).

Instead, governance should be moving towards increased independence and greater oversight of government decision makers:

- ☑ The provincial government should set the broad objectives of the system, but not select specific technologies or providers to achieve them. Independent agencies should implement and oversee these policies.

- ☑ The government should increase the transparency of its decisions by introducing the *Long-Term Energy Plan* for proper debate in the Legislative Assembly, which is not currently the case. To safeguard this transparency, meetings between government and agency officials should be registered publicly.

- ☑ Governments must make major energy decisions public and present proper cost-benefit analysis. To provide legislators and the public an unbiased source of expert information on energy decisions, the Financial Accountability Officer should evaluate energy policies and their economic impacts.

Together these measures will lead to more transparency and better decision-making in the energy system, reducing costly short-term political decisions that drive up prices for consumers.

2 REFORM ONTARIO'S ELECTRICITY PROCUREMENT

Ontario's history of politicized, uncompetitive procurement has created an expensive and inflexible system where above-market prices are preserved for years through long contracts. While some large procurement projects—notably nuclear—will continue to involve a role for government, the remainder of the market would greatly benefit from less centralized decision-making and more competition. The Province's *Market Renewal* proposal, featured prominently in the latest *Long-Term Energy Plan* is an encouraging step, but this is balanced against conflicting signals, such as recent negotiations to purchase sole-sourced electricity from Quebec.

The new approach to procurement should prioritize competition and not require specific technologies. This would avoid the costly mistakes made during past procurements, including many of the green energy contracts. It would also allow for innovation, such as energy storage, district energy systems and small modular nuclear reactors. Through such reforms, Ontario's electricity market can become more like the markets for gasoline and natural gas which have a greater degree of competition, transparency and lower costs.

The *Fair Hydro Plan* may lower rates, but at a significant price that does not address the other weaknesses of the system. Other proposed alternatives are also problematic. Greater public ownership would exacerbate the politicization and the lack of investment and innovation in the system. Likewise, cancelling lawful contracts would increase costs in the long-run and reduce the involvement of the private sector—something Ontario's energy system needs.

ENERGY IS ONE OF THE TOP 3 COSTS these industries often list. Except for the largest users, businesses pay prices higher than most competing markets.

3 REFORM ELECTRICITY PRICING

There has been a lack of transparency in how energy prices are determined, whether through the *Regulated Price Plan* or *Global Adjustment* (GA), making it difficult for interested consumers to understand their costs and hold decision-makers accountable.

- ☑ Costs not directly related to generation, transmission and distribution should be moved out of electricity prices and either funded by the tax base or cancelled. The recent decision of the government to fund electricity support programs from tax dollars was a positive step in this direction.
- ☑ The clarity and transparency of prices should be increased, including the costs of carbon pricing. Larger customers who pay the GA should be able to see a clear breakdown of what this charge includes.

Despite a successful role for the private sector in fuels and electricity generation, other parts of the energy system have not had the same level of involvement.

4 EXPAND THE PRIVATE SECTOR'S ROLE

Despite a successful role for the private sector in fuels and electricity generation, other parts of the energy system have not had the same level of involvement. Until the recent sale of shares in Hydro One, the transmission and distribution sectors were virtually devoid of private investment, with provincial and municipal governments keeping full control. This model should be emulated by municipalities in the Toronto Region and across the province. Full public ownership may appear to benefit some consumers, but in reality, it has led to costly decisions and a lack of innovation and investment that would improve services.

The sale of shares in LDCs provides more than an immediate capital boost to cash-strapped municipalities—it also provides the investment and expertise needed to introduce new technology and develop new lines of business. Presently, municipalities do not have funds or risk appetite necessary to invest in new ventures, and LDCs cannot divert revenues from their core operations (these are strictly regulated by the OEB). Edmonton's EPCOR and Newfoundland's Fortis Energy provide examples of LDCs that have successfully brought in private capital to improve operations and returns for local governments.

To enable this, the provincial government must eliminate departure taxes under which cities would pay a hefty tax bill for an LDC share sale and allow municipalities to reap the full benefits. To make up for lost revenue, Ontario could negotiate an arrangement where the federal government would temporarily pay the province any corporate tax revenue it earns from municipally owned distributors. Canada does not currently receive any corporate taxes from LDCs so it would lose no revenue.

High energy prices make our manufacturers less competitive and drive business and investment to other provinces and states.

5 PRICE CARBON

The most effective approach to maintaining the sustainability of the energy system is through a carbon price—rather than costly regulations or uncompetitive green energy procurement. In contrast to other approaches, a carbon price allows companies, residents, non-governmental organizations, researchers and entrepreneurs to find the best ways to reduce pollution. This price can be achieved through either a cap and trade system or a carbon tax, but should slowly and predictably rise over time to encourage emissions reductions.

Characteristics of a successful carbon price:

- ☑ *Transparency*
  Where possible, the increases attributable to carbon pricing should be presented transparently to consumers as a separate line item on their bills. Government revenues should also be clearly reported separately from general revenues.

- ☑ *Support for Emissions Intensive, Trade Exposed Industries*
  Chemical, cement, steel and automotive manufacturing face intense global competition. Without support, a carbon price risks pushing these industries to relocate to jurisdictions that do not have the same costs. This merely relocates emissions with the added detriment of also relocating jobs and economic activity.

- ☑ *Use Tax Cuts or Rebates to Build a Revenue Neutral System*
  Ontario should change course and follow British Columbia's example by using revenues to reduce personal and corporate taxes—rather than fund new programs. This will provide important relief to businesses already facing high energy costs. It also prevents the government from making poor investments, which return only minimal GHG reductions (such as electric vehicle subsidies).

Energy is the foundation of our modern economy, but our system isn't affordable, transparent or innovative enough. The Board's energy playbook can help solve this. Our businesses are focused on growth. To excel, they require the foundation a global city can provide: a best in-class energy system, transit network and talent pool. The Board's *Agenda for Growth* will fuel the competitiveness of the region that drives Ontario's success.

Read our complete analysis & recommendations:
BOT.COM/ AGENDAFORGROWTH

THE PROVINCE NEEDS AN AGENDA FOR GROWTH

The Toronto region is Ontario's economic engine. Accounting for more than half of the province's economy, it is the centre of globally competitive sectors such as financial services and automotive manufacturing. Our labour force of more than three million is highly educated and supported by leading educational institutions, internationally renowned for training new workers and driving innovation.

Despite these advantages, our region faces challenges. High energy prices, uncompetitive labour laws and rising payroll taxes increase the cost of doing business. Young professionals struggle to find affordable housing with easy access to work, and persistent congestion delays the movement of people and goods.

If Toronto is the Province's economic engine, its citizens and workforce are its fuel. To realize the full potential of the Toronto region and Ontario, we need a thoughtful strategy for the economy and its residents. This election, we're calling on the campaigning parties to champion our *Agenda for Growth*.

Read our comprehensive policy playbooks on Energy, Transportation, Talent & Economic Competitiveness: bot.com/AgendaforGrowth

Join our conversation online
@TorontoRBOT #agenda4growth

TORONTO
REGION
BOARD OF TRADE

Policy drafted by Jeff Parker for the Toronto Region Board of Trade