January 24, 2020

The Standing Committee on Finance and Economic Affairs
Amarjot Sandhu, MPP, Chair
Julia Douglas, Clerk
Room B-304, Whitney Block
Queen's Park, Toronto, ON M7A 1A2

Submitted via email

Re: AMPCO Submission – 2020 Pre-Budget Consultations

Dear Committee Members,

AMPCO is the voice of industrial power users in Ontario. Our goal is industrial electricity rates that are competitive and fair.

Attached is AMPCO's submission made in response to the call for input as part of the Government's 2020 Pre-Budget Consultations. This document captures key points dealing with Ontario electricity pricing.

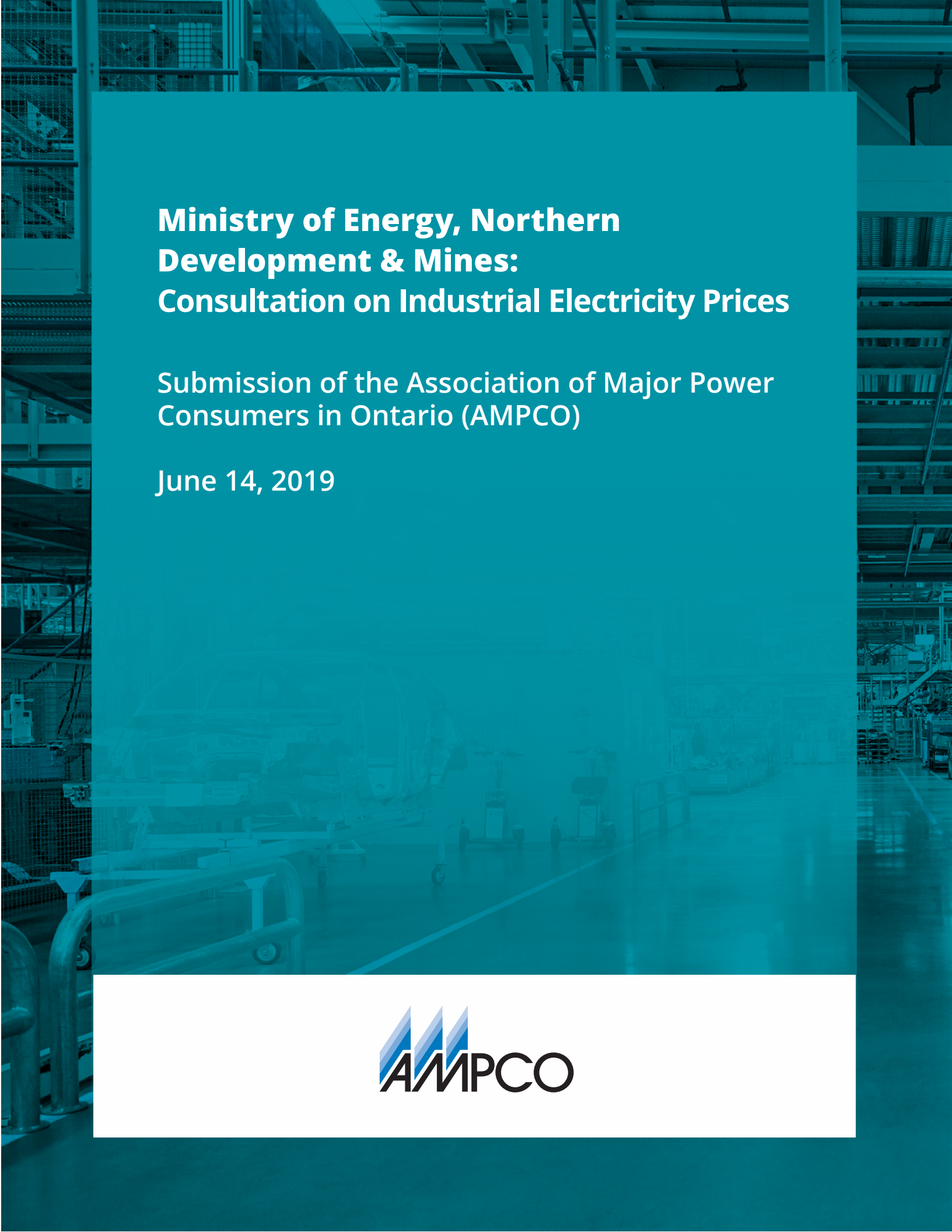
Specifically, this document is the same submission that was made to the Ministry of Energy, Northern Development and Mines pursuant to the Industrial Rate Consultations that took place in 2019. The points that AMPCO wants to emphasize for pre-budget consideration are identical to the points made last year.

AMPCO appreciates the opportunity to provide such a submission, and looks forward to continuing the dialogue.

Best Regards,

[Original signed by]

Colin Anderson
President



Ministry of Energy, Northern Development & Mines: Consultation on Industrial Electricity Prices

Submission of the Association of Major Power Consumers in Ontario (AMPCO)

June 14, 2019

AMPCO

Contents

1. Introduction

Ontario's electricity system is complex and always evolving. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line.

These submissions summarize many conversations that have taken place in late-2018 and early-2019 between Ministry of Energy, Northern Development and Mines staff and AMPCO representatives, as well as discussions between staff from the Ontario Premier's Office and AMPCO. AMPCO's members are major power consumers, responsible for more than 15 TWh of annual demand in the province. A reliable and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in these discussions and in these industrial rate consultations.

Notwithstanding that AMPCO represents industry, it should be understood that its members are not identical. A steel mill consumes electricity quite differently than an auto assembly plant, and a petrochemical facility may consume electricity differently than a mine. Practically speaking, in the same way that industrial facilities are not identical to one another, neither are the solutions to their particular electricity rate problems. One size never fits all – which supports the Government's consultation process and its commitment to discussing electricity pricing issues with multiple sectors.

AMPCO commends the Government for embarking on such consultative activities. AMPCO appreciates the opportunity to provide this feedback and looks forward to continued dialogue on electricity matters.

2. Executive Summary

Ontario's industrial electricity prices are among the highest in North America, with large industrial Class A rates increasing almost 25% over the last five years, and small and medium industrial Class B rates increasing by over 40% in the same period[1]. This situation cannot be allowed to continue if our goal is to make the province truly "Open for Business".

AMPCO believes that industrial pricing reform in the electricity sector will be best achieved using a "two-pronged" approach.

- First, Global Adjustment (GA) amounts in Ontario total almost $1B per month. Allocating $1B per month will result in high rates – whatever way it is done. The amount of the current GA charge must be re-evaluated and, where possible, steps must be taken to reduce its overall size. This approach will not only facilitate lower industrial electricity prices – it will lower electricity commodity costs for all customer classes, including Regulated Price Plan (RPP) customers. A reduction of $2B per year in GA amounts would more than achieve the Government's 12% rate reduction that is being sought.

"The amount of the current GA charge must be re-evaluated and, where possible, steps must be taken to reduce its overall size."

- Second, in concert with reconciling the changes to the GA, a portfolio approach should be implemented with regard to industrial electricity rate options. Alternative rate options, including the Industrial Conservation Initiative (ICI) but incremental to it, are necessary to address the increasing competitiveness gap between Ontario and other jurisdictions, both in the U.S. and Canada.

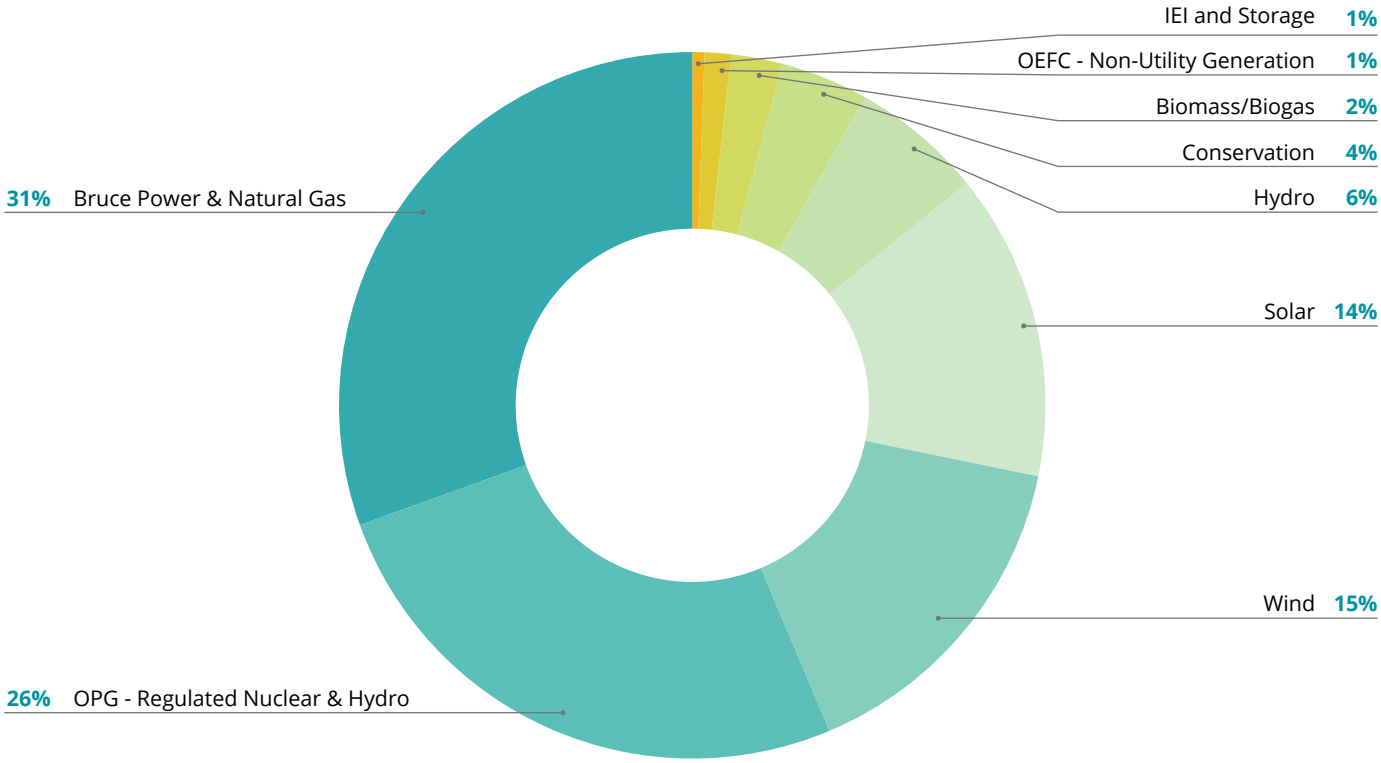
These two approaches, when combined, maximize the opportunities to create a competitive business environment for industry that will be conducive to improving economic development opportunities for Ontario, resulting in increased investment in the province and additional jobs for Ontarians – while minimizing pressure on the Provincial Budget.

1 AMPCO Benchmarking, using IESO data.

3. Shrinking Global Adjustment

According to the IESO, GA charges for 2018 totaled $11.2B – almost $1B per month[2]. Allowing the GA to remain at this level (or increase beyond it) makes it extremely difficult to rein in soaring electricity rates and create a more competitive business environment, irrespective of rate structures. In short, allocating $1B a month will result in high rates – whatever way you do it. To truly reform electricity pricing, GA charges must be reduced.

The following information (taken from the IESO website[3]) represents GA contributions by major component during 2018:



As one can see, the largest current components of GA are Bruce Power/Natural Gas (31%), Wind+Solar (29%) and Ontario Power Generation (26%). Together these are responsible for approximately 85% of the total GA charges. Any meaningful actions taken to reduce GA charges must address each of these large components.

2 Independent Electricity System Operator (IESO) of Ontario - www.ieso.ca

3 Independent Electricity System Operator (IESO) of Ontario - www.ieso.ca

A) Wind+Solar and Natural Gas Contracts

Wind, solar and gas contract prices were struck at levels significantly above market rates when contracts were negotiated pursuant to the Green Energy Act, and earlier. For example, between 2009 and 2018, the average price paid to wind projects was approximately $135/MWh[4], as compared to current market values (established in December 2017 in Alberta) of $37/MWh[5]. AMPCO agrees that sustainability is an appropriate goal for the electricity system, but while Ontario may have done it first, we also did it far more expensively than anyone else will.

There are potentially two options to consider here:

- Renegotiate (i.e. "blend and extend") contract terms to achieve meaningful price reductions. In exchange for a longer contract term, prices would be materially reduced. The capacity payments that some of these entities can expect as a result of the pending Incremental Capacity Auction (ICA) will be relatively low due to the low capacity factor associated with wind generation. Similarly, energy payments should be low due to their near zero-cost marginal price. Accordingly, many of these entities should be interested in extending their contract terms to extract additional value from established assets. Any concern that this approach could have detrimental effects on the ICA and the Market Renewal Project (MRP), is unfounded. The MRP is intended to achieve cost benefits (mostly due to the ICA) and if the market can gain additional benefits by reducing contract costs now, then so much the better for Ontario families and businesses struggling with electricity bills today.

- Review contract prices in comparison to prevailing market prices at the time the contract was struck (i.e. "mark-to-market"). Reallocate the difference between market price and contract price to the Ontario tax base, since this effectively represents the policy cost of the contract, and should more appropriately be socialized. This removes a portion of the impact from rate base, but does not eliminate the cost altogether.

Total amounts in this component for 2018 for wind and solar alone were $3.3B[6]. If we assume that half of that amount could be saved, reductions to annual GA of approximately $1.65B would result. It should also be noted that contracts for gas generation facilities could also be subjected to this approach, resulting in increased savings.

4 http://www.ieso.ca/-/media/files/ieso/document-library/fit/archive/newsroom-archive-2009-feed-in-tariff-program.pdf

5 https://business.financialpost.com/pmn/business-pmn/alberta-chooses-three-companies-to-build-four-wind-power-projects-in-auction

6 The IESO website does not break out GA associated with natural gas contracts separately.

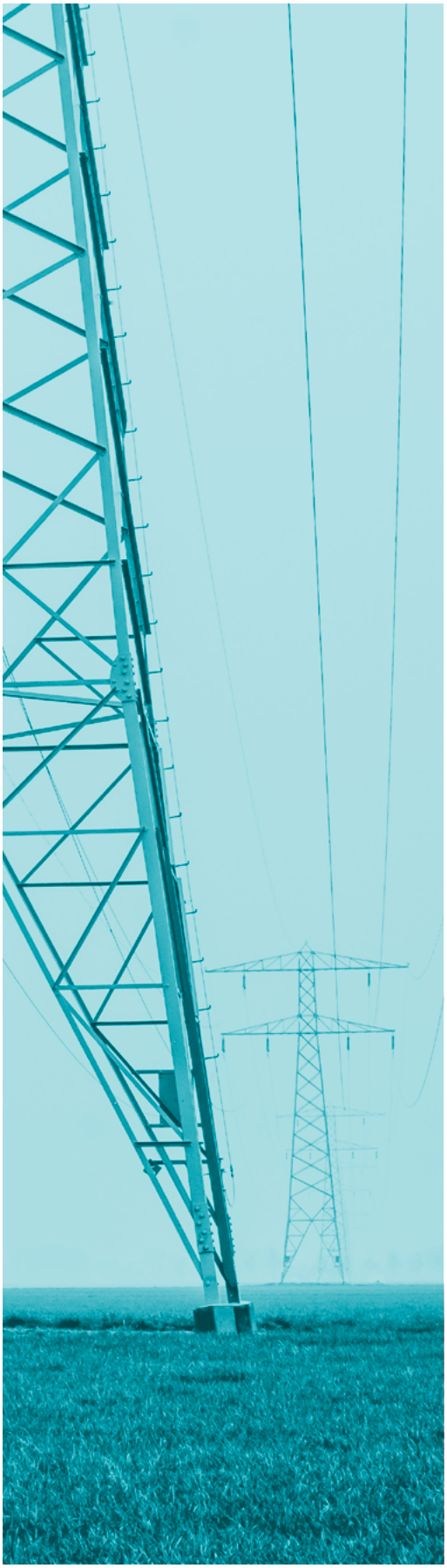
B) Ontario Power Generation

While this component of GA is created by the differential between OPG's regulated payment amounts for its nuclear and hydroelectric fleet and the Hourly Ontario Energy Price (HOEP), the recommendations could (and should) be considered for expansion to all OEB regulated electricity entities (which includes Hydro One and Local Distribution Companies (LDCs)). In this way, maximum benefit could be achieved.

Return on Equity (ROE) and Deemed Capital Structure

Currently, the Ontario Energy Board (OEB) uses an approved allowed ROE value for its rate regulated entities, which in the recent past, has fluctuated between 8.0–9.2%[7]. This value could be reduced to approximately 5%, thereby reducing the revenue requirement for all regulated entities. To ground this recommendation in reality, it should be pointed out that when the Government first regulated OPG's operations in 2005, it had a mandated 5% ROE – and the utility survived. Neither Moody's nor Standard & Poor's downgraded the utility for the reduction in ROE. Further, it should also be noted that Ofgem, the electricity regulator in the United Kingdom, recently chose to reduce mandated ROE levels for its rate-regulated utilities to a baseline amount of 4% annually, in order to cut costs for consumers.[8]

Total ROE amounts for all electricity rate regulated entities (i.e. OPG, Hydro One Transmission and LDCs) for 2017 were approximately $1.2B[9]. Mandated ROE values in 2017 were approximately 8%, so if we assume that 5% was used



7 https://www.oeb.ca/oeb/_Documents/RRR/2017_Yearbook_of_Electricity_Distributors.pdf

8 https://www.ofgem.gov.uk/publications-and-updates/ofgem-cuts-costs-smarter-fairer-and-cleaner-energy-system

9 Compiled from https://www.oeb.ca/oeb/_Documents/RRR/2017_Yearbook_of_Electricity_Distributors.pdf and OPG (EB-2016-0152) and Hydro One (EB 2016-0160) rate applications

instead, savings of $450M per year would result. This represents real savings to real customers – not just industrial customers – ALL customers.

Similarly, deemed capital structure should also be evaluated. Rate regulated utilities apply to the OEB for an ROE value that applies to its deemed equity thickness, a component of its capital structure. That structure is informed, among other things, by the level of risk that the entity faces. Typically (at the OEB), deemed equity thicknesses fall in the 40% range. In much the same way as reducing ROE can result in savings, it would be reasonable to review the impacts of reducing the deemed equity thickness of these entities.

Again, by example, in OPG's most recent rate case (EB-2016-0152), its regulatory ask would have been approximately $280M[10] less over the 5 year period if the deemed equity thickness was reduced to 25%, from its current value of 49%.

This too should be evaluated across all regulated entities, thereby increasing the potential savings.

Capital Budget Oversight

In regards to regulated electricity entity applications to the OEB, direction should be given that capital project spending should be more carefully scrutinized during this period of high prices. In a situation where general reliability is improving, capital spending should be carefully paced to reduce the impact of a rapidly escalating rate base, and the return that goes along with that. Overall, total capital spending for the period 2017 was forecast at approximately $6B (combined for OPG, Hydro One Transmission and all LDCs)[11]. These capital expenditures, once placed in service, become utility rate base – which earns an annual return, increasing utility revenue requirements. Reducing capital will reduce that return.

OM&A Reductions

Consideration should also be given to some form of general direction for an across-the-board reduction to operations, maintenance and administrative costs for OEB regulated utilities. It seems likely that excess exists in these entities in areas including, but not limited to compensation, benefits and pensions, and perhaps some additional regulatory guidance is necessary to find it.

10 OPG Application (EB-2016-0152), Revenue Requirement Work Form

11 Compiled from https://www.oeb.ca/oeb/_Documents/RRR/2017_Yearbook_of_Electricity_Distributors.pdf and OPG (EB-2016-0152) and Hydro One (EB 2016-0160) rate applications

C) Bruce Power

Notwithstanding that this is the single largest contributor to GA currently, very little information exists in the public domain as to the content of Bruce Power contracts. For this reason, no specific recommendations are being advanced here, but a review of the contracts is necessary to assess whether opportunities for cost savings exist.

Total amounts in this component for 2018 were $3.4B. If we assume that half of that amount could be saved, reductions to annual GA of approximately $1.7B would result.

D) Ontario Nuclear Funds Agreement (ONFA)

While not currently associated with the GA, segregated funds, which are managed by OPG to fund its decommissioning responsibilities for the Pickering, Darlington and Bruce nuclear facilities deserve some attention.

As at December 31, 2017 the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds totaled $16.7B[12]. As at December 31, 2017 the Asset Retirement Obligation associated with the nuclear liabilities was approximately $20.4B[13]. Notwithstanding that the ONFA is prescriptive in what the nuclear funds can and cannot be used for, conceptually one must ask does the later end of service dates for both Darlington and Bruce stations due to refurbishment activities change how the utilization of the funds should be viewed?

Originally, station lives were to be approximately thirty years, during which time contributions to the segregated funds took place on a schedule that would see them fully funded at end of station life. Now, refurbishments extend those lives by an additional 25-30 years, increasing the time over which contributions to the funds can be made, and also increasing the time over which the investments can grow. With these longer time horizons, both the used fuel volumes as well as the low and intermediate level waste volumes will both increase proportionally, but other aspects of the liability will generally not increase proportionally. Further, an extra thirty years provides for advancement in technology and processes that could make decommissioning activities faster and/or less onerous.

Do the longer time horizons available for contributions to the funds allow for greater flexibility in utilizing some portion of those funds for electricity sector activities outside

12 OPG 2017 Annual Report

13 Ibid

of nuclear decommissioning? AMPCO recognizes the sensitivity of this issue and merely recommends that a change in approach be considered and evaluated given the dramatic change in end of life dates for the vast majority of Ontario's nuclear capacity - particularly at a time when electricity pricing is at such a critical juncture.

If we assume that $1B per year (for a short period of time) could be utilized, this would allow for another material reduction to total GA.

Summary

The elements listed under items A – D above have all had some level of illustrative potential savings applied to them. AMPCO recognizes that these levels are presented for argument only, but does so to demonstrate that a number of incremental adjustments can add up to a very significant total.

Summing up the elements considered above, annual GA savings of almost $5B could potentially be realized – over 40% of the existing annual GA charges. That is certainly worth considering.

In order to provide some context, the following table represents the potential commodity cost reductions (excluding delivery charges) that could be achieved, by rate class, if GA was to be reduced by $1B, $2B or $5B annually[14]:

	Annual Reduction of **$1 Billion**		Annual Reduction of **$2 Billion**		Annual Reduction of **$5 Billion**	
Avg.Rate Class	Rate Reduction	% Reduction	Rate Reduction	% Reduction	Rate Reduction	% Reduction
Class A	$4 / MWh	6%	$9 / MWh	12%	$22 / MWh	31%
Class B[15]	$8 / MWh	7%	$16 / MWh	14%	$40 / MWh	36%
RPP	$8 / MWh	7%	$16 / MWh	13%	$40 / MWh	33%

It should be noted that the commodity cost reductions that could be achieved for RPP customers would exceed the 12% that is currently being sought by Government, if $2B of GA reduction was achieved annually. Further, these reductions could start to accumulate relatively quickly, by starting contract renegotiations and by acting on ROE values promptly.

14 AMPCO analysis, based on 2018 GA amounts, and assuming Class A proportion of total GA is maintained at 18%, going forward. RPP amounts do not include the effects of the Fair Hydro Plan.

15 Including RPP

> “It should be noted that the commodity cost reductions that could be achieved for RPP customers would exceed the 12% that is currently being sought by Government, if $2B of GA reduction was achieved annually.”

4. Additional Industrial Rate Constructs

There is a need for industrial rate structures, in addition to the ICI program, which would provide for a portfolio of options for industrial electricity customers to choose from, based on their load factor and their operating realities.

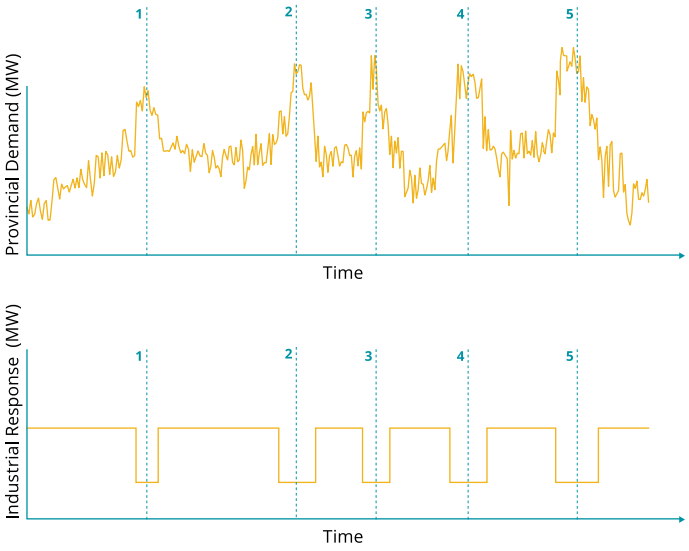
A) The Industrial Conservation Initiative (ICI) Program

ICI is a program that was implemented in 2010 with the purpose of creating a tangible incentive for industry to shift a significant portion of load from on-peak to off-peak hours during those days when demand for electricity is highest. The program worked. It provided a very real capacity related system benefit, which allowed for the deferral of new generation which would have been the responsibility of all consumers. At that time, the additional capacity under consideration was a new nuclear facility ("Darlington B"), the deferral of which avoided many billions of dollars of cost.

The incentive for those industry players who can shift their load was a material reduction in the GA costs – reasonable, given the benefit that accrued to the province.

ICI still provides a benefit. Latest estimates from the IESO indicate that approximately 1,400 MW[16] of capacity are shifted during peak days. In the absence of the program, that quantity of capacity would need to be found elsewhere – likely at considerable cost. It should also be noted that other jurisdictions (such as PJM) use a coincident peak approach to allocate capacity costs – just like ICI.

Indicative Illustration of ICI



There are those who criticize the ICI program, claiming a number of shortfalls including its level of complexity, its non-transparent nature and its perceived fairness, while ignoring the benefits. Critics appear to lay blame for all electricity pricing issues at the feet of ICI, which is quite simply wrong. ICI creates no costs – it is simply an allocation methodology. As such, the problem is not with the ICI construct itself, but rather with the size to which the GA has been allowed to grow. Electricity customers - of all types - would be much better served by finding practical solutions that would reduce the size of the GA, than by subscribing to incomplete, arbitrary or poorly reasoned judgements on a particular price-responsive demand program.

16 http://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/reliability-outlook/2018Q4OntarioDemandForecast.pdf?la=en

The IESO, in its most recent Ontario Reliability Outlook (released on December 17, 2018) relies on the ICI Program to provide 1,400 MW of peak load reduction in both the 18 month and 5 year time horizons, thereby demonstrating the clear system value that the ICI program provides. In addition to this capacity-related system benefit, ICI provides certain industry sectors with a much needed improvement in their pricing competitiveness when compared to North American or global competitors. Many jurisdictions appreciate the need to maintain their industrial pricing at a level that does not render its industry uncompetitive, and ICI assists with this, for those sectors that can participate in the program. For this reason, any changes to the ICI program that would reduce or limit the amount of GA that could be avoided are not advised.

Over the past few years, the eligibility threshold for the ICI program has been reduced from its original value of 5 MW to 1 MW (and in some cases, depending on NAICS code, down to 0.5 MW). This expansion of the program has materially increased the amount of cost shifting of GA amounts between Class A and Class B customers. However, the amount of total system benefit that is realized has increased less than the amount of the cost shifting, implying that a phenomenon of "free ridership" has been created. In reducing the eligibility threshold based on size alone and without qualifying the types of new participants that should have the option of participating, office towers, shopping malls, hotels, casinos, transit lines, prisons and municipal properties can now avail themselves of lower rates through the ICI program. This is not to diminish the reality that these consumers likewise pay electricity costs that are high and rising. Rather, it is simply to point out that in expanding an industrial program to benefit smaller facilities, no consideration was paid to distinguishing between a luxury hotel in downtown Toronto and a sawmill in Timmins.

In AMPCO's submission, the original intent was that ICI program participation was to be reserved for those entities that were Energy Intensive and Trade Exposed (EITE)[17] and who comprise Ontario's industrial base. This distinction balanced the system benefit with the provision of competitive benefits to those sectors that required it the most – because they directly compete with other jurisdictions that have lower energy pricing. Many of the current ICI participants cannot be considered trade exposed in any way, and do nothing to reduce their consumption during the five coincident peaks - they simply enjoy the benefit of Class A rates without modifying their behaviour or even being technically "industrial". In AMPCO's submission, the ICI program should be returned to its former focus – being available to EITE entities. These are the entities that provide the system benefit and who take action by making business decisions regarding the price of electricity, since they cannot simply pass their costs through to their customers.

17 Originally "Emissions Intensive Trade Exposed", these entities competed against others who were not subject to local emissions standards that were not as stringent, putting Ontario EITE firms at a competitive disadvantage. The same principle applies to energy pricing.

> ICI creates no costs – it is simply an allocation methodology. As such, the problem is not with the ICI construct itself, but rather with the size to which the Global Adjustment (GA) has been allowed to grow."

B) Incremental Rate Options

While ICI provides numerous benefits, it is not a program that can be utilized by all industrial sectors. For this reason, alternative incremental rate options are necessary to address the increasing competitiveness gap between Ontario and other jurisdictions, both in the U.S. and Canada; the binary choice between Class A or Class B is insufficient given the diversity of industry and their energy profiles in Ontario.

Other jurisdictions have successfully implemented similar programs that are achieving the kind of desired economic objectives – job retention/growth and predictability.

A particular focus of these constructs includes incentives to stimulate the attraction of new capital investment. Years ago, many industrial sectors in Canada maintained parity with the United States in terms of investment capital. Since Canada's population was about 10% of the U.S., we got about 10% of the investment capital. That is no longer the case.

Industrial facilities that receive investments are usually newer and more efficient than those that don't. Those investments make them even more efficient again. So when the next round of investments is being considered, it often makes sense to put it where the newest, most efficient equipment is – creating a continuous cycle. The facilities that do not receive capital fall behind their well-invested counterparts, often entering a harvest strategy which ultimately ends in closure. Unless steps are taken to increase the amount of investment flowing into the province, Ontario industry will struggle. Implementing rate structures that increase Ontario's competitiveness will also encourage capital investment.

"[...] alternative incremental rate options are necessary to address the increasing competitiveness gap between Ontario and other jurisdictions, both in the U.S. and Canada; the binary choice between Class A or Class B is insufficient given the diversity of industry and their energy profiles in Ontario."

In addition to ICI, some other examples of rate constructs that could be considered are as follows:

- Quebec Tariff "L"[18] – Some industries consume at a relatively constant rate that is referred to as "baseload". This could be in the form of an all-in flat rate (including fixed capacity costs and variable energy costs) that reflects the costs of the baseload grid facilities supplying their loads. These grid facilities will tend to have high capacity factors and will be well utilized, resulting in their fixed costs being spread over a proportionately large volume of energy. These types of facilities could benefit from either a single "all-in" price, like the flat rate model that has energy and capacity costs rolled in together or a separate energy and capacity charge but with a minimum capacity value such as the Quebec Tariff "L".

  In addition to the basic rate construct (Capacity + Energy), Tariff "L" includes a program to stimulate capital investment offered through the Ministère des Finances. As part of this program, Companies can receive assistance in the form of reduced electricity costs enabling them to recoup up to 50% of eligible project costs, including 40% of the eligible capital costs and up to 10% of the eligible capital costs incurred as part of efforts to reduce GHG emissions. The assistance corresponds to a maximum electricity bill reduction of 20% for a period of four years (or six years for projects worth $250 million or more).

  Tariff "L" also includes other rate components such as a further economic development rate (for building a new facility or expanding an existing facility), an industrial revitalization rate (for returning unused production capacity to operation or converting an industrial process that is currently powered by fossil fuel to electricity) and further credits for supply of electricity at medium or high voltage (among others).

- New York's "ReCharge NY"[19] – This program recognizes the need for a firm linkage between energy and economic development. Through the ReCharge NY program, qualifying businesses and non-profits statewide can lower their energy costs by as much as 25% by using specially allocated NYPA power which is set aside by the state government and the NYPA board for economic support. ReCharge NY power contracts are awarded competitively. The New York State Economic Development Power Allocation Board (EDPAB) reviews applications and makes allocation recommendations to NYPA's Board of Trustees, who approve allocations. Applications are evaluated according to a number of criteria including significance of the cost of electricity to applicant's total cost, capital investment being made, number of jobs created or retained within the state, and significance of the applicant to the local economy (among others).

18 http://www.hydroquebec.com/business/customer-space/rates/rate-l-industrial-rate-large-power-customers.html

19 https://www.nypa.gov/innovation/programs/recharge-ny

Retaining and growing industries that generate jobs and stimulate secondary economic activity can benefit the economy and society in general. These benefits retain (or add to) the tax base and contribute to the quality of life for all citizens. Thus, funding from economic development programs leveraged with reductions in electricity costs can provide multiple benefits.

These are just two examples of incremental rate options. AMPCO would be happy to continue working with Government to assess possible industrial rate designs in Ontario. In addition to the ICI program, more dynamic rate designs that keep prices affordable while delivering electricity system benefits, enhancing industrial competitiveness and promoting economic development should be a key imperative.

As has already been stated, AMPCO members are not identical. It should also be understood that their competitors, and the geographic areas over which they compete, are equally diverse. For example, industries such as mining and steel compete globally for business, where automotive, pulp and paper and petrochemical are more regional (i.e. North America). This diversity further underscores the need for flexibility in crafting solutions since the prices that are paid for electricity (and other input costs, for that matter) are dependent upon the jurisdiction in which a competitor resides.

5. Conclusion

Ontario is at a critical point with respect to electricity pricing. Prices are high and, in the absence of intervention, are forecasted to climb higher. In considering the current system exclusively from the perspective of affordability, in some ways significant and rapid improvements in regards to end use pricing are precluded by the system's very structure itself. High contracted and regulated generation prices contribute to a massive GA problem. Billions of dollars of infrastructure improvements are planned for the coming years, putting upward pressure on regulated transmission, generation and distribution rates. In AMPCO's submission, it is time to reflect on – and pursue - material and significant structural changes that can truly make a difference.

At times, incremental changes are enough, but in the situation in which Ontario currently finds itself, that approach is inadequate. AMPCO's suggested changes would not be easily achieved, nor are they being suggested for consideration lightly. AMPCO understands that these are material changes that would require considerable effort and some short-term pain. However, in AMPCO's submission, Ontario's pricing problem has reached a critical mass that requires contemplation of significant intervention – short-term pain may be necessary to achieve longer-term health of the system. That is the spirit in which these suggestions are being offered.

The combination of reducing the GA and implementing additional industrial rate structures will not only reduce electricity prices for all, it will also promote economic development and enhance industrial competitiveness.

AMPCO wishes to once again express its appreciation to Government for engaging in such consultations and inviting the submission of ideas for improving electricity sector pricing. AMPCO looks forward to continuing to work with you.

> "[...] in AMPCO's submission, Ontario's pricing problem has reached a critical mass that requires contemplation of significant intervention – short-term pain may be necessary to achieve longer-term health of the system."

Appendix – Specific Government Questions

1. *What impact has the Industrial Conservation Initiative (ICI) had on your operations and business competitiveness? How easy or difficult is it for you to lower consumption in potential peak hours in order to reduce Global Adjustment (GA) charges? What changes, if any, could be made to ICI to improve fairness, industrial competitiveness or reduce red tape?*

   Please see Section 4A of the AMPCO Industrial Rate Consultation Submission.

2. *What are your thoughts on a rate mitigation program that is based on electricity intensity, trade exposure, or both?*

   Please see Section 4A of the AMPCO Industrial Rate Consultation Submission.

3. *Given the choice, would you prefer a more dynamic pricing structure which allows for lower rates in return for responding to price signals or a flat rate structure that potentially costs more, but is more stable and predictable?*

   This is a difficult question because it artificially creates a binary choice, where none exists in reality. The answer, of course, is that firms require both. AMPCO is sceptical that a "stable" rate could be achieved that would also be affordable for many industrial customers.

   For additional clarity, AMPCO does not agree with a "one size fits all" flat rate for industrial customers. One size never fits all, and to try to force fit a single industrial rate in place will jeopardize the very existence of certain Ontario industrial sectors. AMPCO advocates for a portfolio approach to rates, as set out in Section 4B of the AMPCO Industrial Rate Consultation Submission.

4. *Some jurisdictions have offered targeted electricity programs, that use a competitive evaluation process, to achieve economic development objectives. In some jurisdictions, evaluations are based on elements such as job commitments and investments. From your perspective would such a program be beneficial in Ontario?*

   AMPCO fully supports the integration of energy and economic development. Other jurisdictions offer programs exactly like this such as Quebec Tariff "L" and New York's "ReCharge NY", both of which are discussed in more detail in Section 4B of the AMPCO Industrial Rate Consultation Submission.

5. *The Northern Industrial Electricity Rate (NIER) program currently provides a rebate to eligible electricity consumers. What changes, if any, could be made to NIER to improve fairness and industrial competitiveness?*

   AMPCO supports the current NIER Program.

6. *Electricity retailers currently have a limited role in Ontario's electricity market. If the option were available, would your company consider entering into an all-in commodity contract with a retailer, even if it involved a risk premium?*

   Unlikely, since the addition of another layer of costs would likely involve a higher price, rendering it unaffordable.

7. *What are your views regarding the proposed updates to the electricity market or procurement mechanisms being proposed by the Independent Electricity System Operator (IESO)?*

   AMPCO and its member companies have been active participants in the IESO's Market Renewal Program (MRP) since its initiation. Throughout the discussions, AMPCO has consistently reiterated its need for competitive electricity pricing in Ontario. Countless times, AMPCO has said that, if Ontario perseveres and sees Market Renewal through to its conclusion – and that conclusion results in generally higher electricity prices – then Market Renewal will have been a failure.

   There are three specific areas of the MRP that AMPCO will comment on as part of this Consultation – Load Pricing, the Incremental Capacity Auction (ICA) and the Transitional Capacity Auction (TCA).

A) **Load Pricing** – AMPCO supports a uniform pricing regime in the province, which has inherently less risk for customers than other options. AMPCO cannot support the IESO's recommendation of zonal pricing (with a nodal option) for non-dispatchable loads and nodal pricing for dispatchable loads as part of the market design. The current level of evidence that exists to support the IESO's recommendation is not sufficiently compelling to earn AMPCO's support[20]. In general, much of the driving force to move to a Zonal / Nodal pricing regime appears to come from an exclusive subscription to economic theory regarding short and long run price efficiencies. While AMPCO understands the theory, we do not agree that blind adherence to economic theory alone should drive all decisions in electricity markets. There are countless other considerations – fundamental realities that exist in Ontario and elsewhere - that appear to have been neglected in preference to the exclusive reliance on academic economic theory. Below are the key problems with the recommendation:

   - Short run marginal price efficiency should be subordinate to competitive pricing.
   - Long run marginal price efficiency is a theoretical construct of little value when viewed exclusively within the Ontario electricity market. There are many other more compelling realities to be considered in investment decisions.
   - Volatility in a nodal/zonal pricing construct will be greater than in a uniform pricing world. Nodal

20 AMPCO has made four separate submissions to the IESO on this topic dated June 21, 2018, August 31, 2018, October 18, 2018 and November 22, 2018. All of these can be found at: http://www.ieso.ca/en/Market-Renewal/Stakeholder-Engagements/Market-Renewal-Single-Schedule-Market

/ zonal is riskier than uniform pricing. Acceptance of this risk must come with a corresponding return which does not exist (disbursement of residual is insufficient).

- All the IESO analyses used to support its recommendation have been "backcasts" of information instead of forecasts. History cannot predict the future. Additionally, the values used in these backcasts are what is referred to as "Shadow Prices" – these are not the same as nodal/zonal prices, and cannot be relied upon to behave as nodal / zonal prices.

AMPCO continues to support a uniform pricing methodology for consumers, to mitigate these concerns.

B) **Incremental Capacity Auction (ICA)** – The ICA represents a new structure to the Ontario market and is proposed to replace contract procurement of generation. At a high level, it is assumed that a generation source that is no longer in possession of a contract will participate in a competitive auction process instead of renegotiating its contract to participate in the Ontario electricity market. In this way, the competitive nature of the auction process will drive efficiencies and result in significantly lower prices than contracted procurement methods. In fact, this is the area of the MRP that is assumed to be responsible for the vast majority of the cost savings identified ($2.2 – $5.2B over a 10 year period) by the Brattle Group in its Benefits Case Report located on the IESO website[21]. Undoubtedly, if structural problems with the ICA were to materialize, this would seriously jeopardize the savings predicted by the Brattle Group.[22]

As the ICA discussions have progressed, it has become clear that many generation sources – that have long lead times to design, permit, construct, and commission - will likely require "multi-year commitments" as part of the ICA in order to obtain a guaranteed revenue stream that will be necessary to secure project financing, among other things. The need for multi-year commitments may be indicative of a larger issue. While the ICA may be able to secure capacity associated with uprated units or demand response, it appears increasingly unlikely that the ICA, by itself, will be able to provide adequate incentives to attract new generation projects. This effect has been experienced in other US markets that use capacity auctions, where additional incentives have become necessary to attract / retain new generation sources.

Many jurisdictions in the US are struggling with capacity markets and their effectiveness to incent new investment and retain existing generation. The problem is that the introduction of low cost shale gas, renewable energy and the resulting low or negative market prices are causing some of

21 http://www.ieso.ca/en/Market-Renewal/Background/Overview-of-Market-Renewal

22 While the Brattle numbers are illustrative at best, one should consider them within the context of the Ontario electricity sector total costs as a whole. While $3.4 B over a decade sounds material, Ontario's electricity sector is a $150-200B market over the same decade. $3.4 B is only approximately 2% of those total costs, not an overwhelming savings.

the fossil and nuclear generation to lose money in spite of the capacity market support. In response, some states/markets are taking action to provide "out of market" capacity support payments and/or administratively adjust the energy price to provide greater revenues to generators, effectively applying band aids to a system that isn't working. Ontario needs to be cognizant of these activities and to consider them within the context of our own market design.

AMPCO is concerned that the ICA has, in some ways, been positioned as the de facto "solution" to the problems created by procurement contracts. AMPCO feels such a characterization overly simplifies the contracting process and should be avoided. In general, the contracts that were struck pursuant to the Green Energy Act (GEA) resulted in excessively high prices – such is the fortune of any "first mover" or "early adopter" (as Ontario was, in the area of renewable generation). Because of this, the procurement contract approach in the energy sector has been vilified, with any and all contracts being tainted by the high priced contracts that resulted from the GEA. In effect, because of certain GEA contracts that were struck, all procurement contracts have been deemed to be "bad".

In AMPCO's submission, this is incorrect. Stated somewhat informally, "Not all contracts are bad – just bad contacts are bad…".

In recognizing this issue, one should reassess the approach being taken in Ontario, where the ICA will be the only tool available in satisfying incremental capacity needs. If the ICA exists on one end of a spectrum, and procurement contracts exist on the other end, AMPCO questions whether there may be reasonable points that exist along the continuum between those two spectral extremes. To be clear, there may be times where a properly negotiated contract, complete with good and reasonable compensation, results in a better solution than the one provided by an ICA approach, in isolation.

In AMPCO's view, an approach that contemplates both auction and contract, may be better than either approach exclusively.

C) **Transitional Capacity Auction (TCA)** - AMPCO's single most significant area of commentary on the TCA deals with the unjust discrimination against Demand Response (DR) proponents which exists within the current TCA Design Document as a result of a fundamental design flaw. That flaw provides for energy payments for one class of TCA participant (generators) but does not allow for such payments for a second class of TCA participant (DR providers) in similar circumstances.

This issue has been considered in the past by the Federal Energy Regulatory Commission (FERC) in the US. In 2011, FERC issued Order 745 which indicated that "…when a demand response resource participating in an organized wholesale energy market administered by a Regional Transmission Organization (RTO) or Independent System Operator (ISO) has the capability to balance supply and demand as an alternative to a generation resource and when dispatch of that demand response

resource is cost-effective as determined by the net benefits test described in this rule, that demand response resource must be compensated for the service it provides to the energy market at the market price for energy…"[23] Further, FERC's Order 745 was upheld in January, 2016 by a decision of the Supreme Court of the United States[24].

Ontario appears to be landing in a different position than the Federal Energy Regulator in the U.S. on this particular issue, with no stated rationale. AMPCO strongly recommends that Ontario re-evaluate its approach on this issue and that it implement a design that treats loads consistent with generators in their provision of demand response. To not do so is to intentionally create unfairness and discrimination within the TCA design.

8. *Beyond the commodity portion of the electricity bill, is there anything that you would like to see changed in terms of delivery and regulatory cost recovery or bill presentment?*

AMPCO supports increased stability and transparency on electricity bills, as set out in the Fixing the Hydro Mess Act. This sector is complicated – consistency and clarity always make life a little bit easier for customers.

While the Government's desire to cut red tape and improve regulatory efficiency is commendable, AMPCO does wish to issue one caution. Some stakeholders have vilified the public hearing process and have advanced arguments as to why it should be streamlined or simplified by the exclusion of intervenor groups. Costs associated with preparing and managing rate applications have been cited as irrefutable evidence that the process is broken. This is incorrect.

While it is true that regulated entities pay cost awards to intervenors, those same regulated entities have included a forecast of those costs in their revenue requirements. This means that ultimately it is customers that are paying for public hearings – the same customers who benefit from intervenor inclusion within the adjudicative process. Those customers want the intervenors present.

AMPCO agrees that there is room for improvement in the regulatory process. However, regulatory efficiency must never be used as a justification for exclusion of customer interests from proceedings that directly impact electricity rates.

9. *Are there any other thoughts that you would like to provide with respect to industrial electricity price mitigation?*

Please see Section 3 of the AMPCO Industrial Rate Consultation Submission.

23 https://www.ferc.gov/EventCalendar/Files/20110315105757-RM10-17-000.pdf

24 https://www.supremecourt.gov/opinions/15pdf/14-840-%20new_o75q.pdf

2020 Pre-Budget Consultations:

Association of Major Power Consumers in Ontario (AMPCO) - Remarks to the Standing Committee on Finance and Economic Affairs

Members of the Committee,

I'd like to express my appreciation on behalf of AMPCO for this opportunity to address you.

I want to start by providing some background. AMPCO is the voice of industrial power users in the Province. Our members represent Ontario's industrial base: mining, pulp and paper, petrochemical, automotive, steel making, and many others with operations across the entire province. AMPCO's members are major power consumers, accounting for about 11% of the power used in the province last year. A reliable, sustainable and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in these consultations.

I will be limiting my comments to areas that are directly related to electricity pricing and general affordability of power.

This represents my third appearance before a Committee in this Government's term. In the previous two, AMPCO was supportive of both the *Green Energy Repeal Act* and the *Fixing the Hydro Mess Act*. However, we were also very clear in pointing out that neither piece of legislation eliminated any existing costs from the electricity sector. Both

appearances referenced the need to remove costs in order to address Ontario's lack of competitiveness. I am echoing that sentiment once again today – and the time to take meaningful action is now. Recognizing that imperative - as part of this budget process - is essential.

AMPCO believes that industrial pricing reform in the electricity sector will best be achieved using a "two-pronged" approach:

First, Global Adjustment (GA) charges in Ontario currently total over $1B per month. The amount of the GA must be re-evaluated and steps must be taken to reduce its overall size.

Second, in concert with reducing the GA, a portfolio approach should be implemented with regard to industrial electricity rates. Alternative rate options are necessary to address the increasing competitiveness gap between Ontario and other Canadian and U.S. jurisdictions.

Now I'd like to provide a little more detail on both of these approaches.

*** In regards to "Shrinking the GA" - according to the IESO website, total GA is $12.8B for the 12 month period December 2018 – November 2019. Of that amount, 36% is due to gas, wind and solar contracts, 32% is due to OPG's rate regulated assets and 20% is due to Bruce Power. Combined, that represents 88% of the GA amounts. These are the areas that need to be addressed.

There is unlikely to be one single change that, if implemented, would reduce GA charges by a meaningful amount. That is why a number of changes are necessary.

- The Government's directive to the IESO to re-evaluate existing contracts is a good first step. Regarding gas, wind and solar contracts, a "blend and extend" approach could be employed where current contract prices could be reduced in exchange for longer contract terms.
- OPG's allowed Return on Equity and deemed capital structure should be reconsidered, to reduce its revenue requirement. It should be noted that OPG had a mandated 5% ROE (approximately half of its current value) during the period between when O. Reg 53/05 first came into force and when the OEB assumed regulatory authority over OPG. Further, other jurisdictions such as the UK, have taken similar steps to reduce allowed ROE values. In neither case did investors abandon the sector. This approach should be extended to all rate regulated electricity utilities to maximize its impact.
- Bruce Power's contract should be reviewed. Very little information exists in the public domain as to the content of this agreement. For this reason, no specific recommendations can be advanced here, but a review of the contract should be undertaken to assess whether opportunities for savings exist.

These are examples only and they don't constitute a comprehensive list.

It is important to understand that "Shrinking the GA" is not an industrial rate program. Shrinking the GA will not just facilitate lower industrial prices – it will lower electricity commodity costs for all customer classes, including residential customers. If, by undertaking the approaches just discussed, an aggregate amount of $2B per year can be found, this would be approximately what is needed to achieve the 12% rate reduction that the Government is currently seeking - all without imposing pressure on the upcoming Budget.

*** Moving now to the second aspect of the two pronged approach, I would like to touch very briefly on the need for additional industrial electricity programs.

There is currently one active program in the province for industrial customers - the Industrial Conservation Initiative. As effective and useful as this program is (and for clarity – it should be maintained), it is not all things to all people. Many industrial customers cannot participate in the ICI program, due to their operational realities. They require a different solution. Other jurisdictions have wrestled with this issue and have implemented additional programs which reinforce the linkage between energy and economic development. Those jurisdictions are achieving the kind of economic results that Ontario needs – employment growth and increased investment.

I won't go into detail on specific programs today due to time constraints, but AMPCO's submission - made as part of the Industrial Rate Consultations last year - provides that additional detail. I will forward that submission to this Committee. Some of these programs may indeed require some incremental budget funding. However, the potential savings associated with Shrinking the GA will eclipse whatever funding requirements are determined to be necessary to achieve the economic benefits associated with additional rate constructs.

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In closing, these two approaches – "Shrinking the GA" and "Additional Industrial Rate Programs" – will maximize the opportunities to create a competitive business environment that will result in increased investment in the province and additional jobs for Ontarians – while minimizing pressure on the Provincial Budget.

I'm happy to take any questions you may have.