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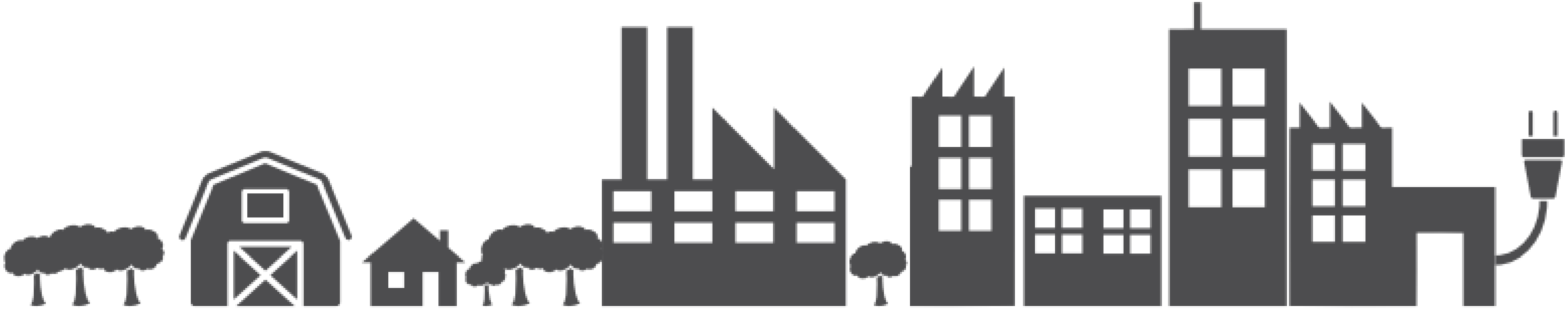

EMPOWERING ONTARIO

Constraining Costs and Staying Competitive in the Electricity Market

Opening Remarks

Karl Baldauf, Vice President, Policy & Government Relations, Ontario Chamber of Commerce

Businesses are telling us that the high price of electricity is undermining their capacity to grow.

- 38 percent of businesses in the province will see their bottom line shrink as a result of rising electricity rates (OCC survey, 2014).

- More than any other issue (including red tape, taxes, and infrastructure), electricity prices are cited as a top barrier to competitiveness.

It’s difficult to gauge how Ontario’s rates compare to those of its competitors.

- The Province does not conduct publicly available jurisdictional comparisons similar to those of Hydro-Québec for Class B Industrial rates

- The Province releases a “Quarterly Energy Report” which identifies electricity supply and demand in addition to Class A and B electricity prices (both the HOEP and the Global Adjustment components).

- Making an “apples to apples” comparison remains difficult. Though AMPCO’s analysis suggests that Ontario has the highest industrial rates in North America.

2015 Indicative Industrial Electricity Prices (Canadian ¢/kWh)

The table below compares indicative retail industrial electricity prices across North American jurisdictions. For reference, Ontario – South reflects the average price for year-to-date May 2015. Ontario – North is based on the same figure, along with the 2 cent per kilowatt hour Northern Industrial Electricity Rate Program rebate. See footnote for more details.

	Jurisdiction	Cost		Jurisdiction	Cost		Jurisdiction	Cost
1.	Manitoba	4.67	22.	Oregon	7.72	43.	Virginia	9.23
2.	Quebec	5.17	23.	West Virginia	7.80	44.	South Dakota	9.31
3.	Washington	5.64	24.	Saskatchewan	7.81	45.	Kansas	9.54
4.	Alberta	5.87	25.	Nevada	7.83	46.	Nebraska	9.56
5.	**Ontario – North**	**6.35**	26.	Arizona	8.00	47.	Pennsylvania	9.59
6.	Oklahoma	6.64	27.	Idaho	8.05	48.	Wisconsin	9.87
7.	Montana	6.68	28.	North Carolina	8.09	49.	Nova Scotia	10.02
8.	Kentucky	6.80	29.	New Mexico	8.09	50.	North Dakota	10.75
9.	British Columbia	7.04	30.	Illinois	8.24	51.	Florida	10.79
10.	Iowa	7.06	**31.**	**Ontario – South**	**8.35**	52.	Delaware	10.96
11.	Louisiana	7.06	32.	Mississippi	8.41	53.	Maryland	11.86
12.	**Canadian Average**	**7.31**	33.	Newfoundland	8.65	54.	Maine	12.64
13.	Missouri	7.32	**34.**	**U.S. Average**	**8.71**	55.	Vermont	13.14
14.	Georgia	7.35	35.	New York	8.72	56.	California	13.85
15.	Texas	7.37	36.	Indiana	8.74	57.	New Jersey	14.44
16.	New Brunswick	7.48	37.	Ohio	8.75	58.	New Hampshire	17.17
17.	Arkansas	7.49	38.	Wyoming	8.87	59.	Massachusetts	17.56
18.	Tennessee	7.53	39.	Minnesota	8.89	60.	Connecticut	17.58
19.	Alabama	7.58	40.	Prince Edward Island	8.90	61.	Alaska	18.85
20.	South Carolina	7.68	41.	Colorado	9.05	62.	Rhode Island	19.97
21.	Utah	7.70	42.	Michigan	9.13	63.	Hawaii	31.10

http://www.ontarioenergyreport.ca/pdfs/5889_IESO_OntarioEnergyRptQ12016_Electricity_EN_FA.pdf

How Did We Get Here?

- Ontario is the first jurisdiction in North America to eliminate coal-fired generation. Coal is among the least expensive sources of electricity generation, but it is a significant contributor to climate change.

- The decision to phase out coal necessitated investment in new and alternative sources of electricity generation.

- Massive and necessary investments were made in electricity distribution, transmission, and generation in the 2000s to make up for a lack of investment over the preceding decades.

- Other factors have also contributed: FIT program (to a much lesser extent) and gaps between power supply and demand.

- Cap and trade expected to add $5 a month for residential – unclear of how it will impact industrial ratepayers.

What Can We Do About it?

- The Government of Ontario has taken several mitigating steps for large industrial and SMEs, including:
  - The expansion of the Industrial Conservation Initiative (ICI) threshold
  - The extension of the Northern Industrial Electricity Rate (NIER) program

- Further, we recognize that the Government of Ontario has made large and much needed investments in energy and electricity infrastructure.

- There is much we can do in the short term…

Recommendation 1

Increase transparency of electricity pricing and system cost drivers

Other jurisdictions more clearly outline the impact of system cost drivers on electricity rates and offer clear jurisdictional comparisons.

The Ontario Energy Report is a good start, however it does not outline the impact of system cost drivers on electricity rates and does not offer an “apples to apples” electricity rate comparison.

Recommendation 2

Keep the Debt Retirement Charge on residential bills until it has been retired

The Government of Ontario removed the DRC from residential customers' electricity bills after December 31, 2015.

Sharing the burden across residential, small business, and industrial electricity bills makes good sense: the debt could be paid off more quickly if spread across a larger customer base, with less financial impact on all ratepayers' bills.

Recommendation 3

Incentivize voluntary consolidation of local distribution companies

There is a need for faster consolidation among LDCs in Ontario's electricity system and an increased level of private sector capital.

Removing barriers to consolidation, such as the departure and transfer tax, for a longer period of time will increase economies of scale in the distribution sector and access to capital. If LDCs are provided more options to raise capital, this will also increase the levels of capital infusion into the industry as a whole.

What Has Been Government's Response?

- Recommendation 1: Greater transparency: Government has launched the Ontario Energy Report. The report will include information related to industrial prices going forward. Direct discussions with the Minister's office on this point.

- Recommendation 2: Keep the DRC on residential bills: Government is committed to moving forward with their commitment to remove the DRC from residential bills. In the Fall Economic Update, we learned that the government will remove the DRC 9 months earlier than expected to April 1, 2018. This will save small businesses about four per cent on their electricity bills

- Recommendation 3: Incentivize voluntary consolidation: Government is committed to incenting voluntary consolidation through temporary tax measures (transfer tax and capital gains)

What Next?

- Long Term Energy Plan 2017
- Confronting Cap and Trade
- As U.S. states ween themselves off coal-fired generation, Ontario’s rates will fall more closely in line with those of its competitors.
- There are a number of existing programs that benefit SMEs and large organizations. Better awareness is needed.