Coalition of Ontario Manufacturers for Competitive Industrial Power Rates

May 19, 2015

Standing Committee on Finance and Economic Affairs

Chair, Soo Wong. MPP,

Scarborough--Agincourt

Clerk, Katch Koch Tel. 416-325-3526

kkoch@ola.org

Dear Ms. Wong:

Our group was not able to present our views on Bill 91 (The Budget) in person to you and the Standing Committee on Finance and Economic Affairs. Accordingly we are writing on behalf of the Coalition of Ontario Manufacturers for Competitive Industrial Power Rates. The members of the coalition include the Canadian Cement Association, Ontario Federation of Agriculture, Ontario Construction Secretariat, Canadian Foundry Association, Canadian Plastics Industry Association, Quinte West Manufacturers' Association and Northumberland Manufacturers' Association.

We are perhaps an odd group to be united consisting as we do of commodity producers, packaging producers, farmers, foundries and manufacturers of all sorts. However we all share a common interest in the health of Ontario's economy and especially in the way in which power rates have compromised the competitive position for all of us and for those we and others in Ontario employ.

Specifically we regret that the Budget has insufficient measures to make electricity prices competitive with the price of power for industries in the eastern USA. As a result Ontario is continuing to lose manufacturing jobs. Since 2004, Ontario has lost more than 270,000 such jobs. And manufacturing investment is down from over $10 billion a year to just $6 billion a year. This is not entirely because of power rates. Markets have shifted. Newsprint demand is down. Wages are lower in China and Mexico, and so on. But all of the coalition members are acquainted with firms that have left Ontario in large part because of power rates.

Your committee has the words Economic Affairs in its title. Our concern is an economic affair.

Coalition of Ontario Manufacturers for Competitive Industrial Power Rates

We believe that this budget should have had as its center piece a proposal to restore Farm and Industrial Power Rates to Ontario. Such a proposal would immediately catch the interest of investors and employers. They would start to invest and re-employ here again. Attached is such a proposal that our group has developed over the past several years. It is likely too late for this proposal to become part of Bill 91 and this Budget. However we ask that the proposal influence the coming Fall Economic Statement, and that that statement contain a commitment to develop Farm and Industrial Power Rates and to phase in such a proposal between May 2016 and May 2018.

Farm and Industrial Rates will add an additional 9,400 jobs a year in Ontario to the 95,000 that have been generated of late. The taxes these new workers will pay, will cover the costs of returning to Farm and Industrial Electricity Rates. The people who get these jobs will live ordinary lives by most standards. They will care for their children, send them to colleges and avoid the pitfalls of protracted joblessness.

Ontario can return to good manufacturing jobs and the related investment for an extra 9,400 families every year. The good work of Farm Industrial Rates will start before then. The loss of over 20,000 such jobs each year will also slow up. Farm and Industrial Power Rates are the most job positive social program available to any government. Ontario had them from 1905 to 2002. Since 2004, market priced power has been a major factor in discouraging investment and employment here. This can be changed and we ask that your Committee do its part to promote this change and endorse the principle of returning to Farm and Industrial Electricity Rates.

Sincerely,

Steve Morrissey, Martin Vroegh,

Co-Chairs, Coalition of Ontario Manufacturers for Competitive Power Rates

attach.

Coalition of Ontario Manufacturers for Competitive Industrial Power Rates

Ontario can move to Farm/Industrial rates via a three year phase-in. This approach ensures that no one pays more for power in order to reduce industrial rates and that the adjustments for the Province will be smooth and affordable. A three year phase-in would consist of the following steps:

1. In this spring 2015 budget, commit to developing and implementing Farm/Industrial rates within a year.
2. In the 2016 budget, reduce the Ontario portion of HST on all power bills, from 8% to 4% and adjust rates to use this $250 million in reduced billing, so residential and commercial rates fall by about 1% and farm and industrial rates fall by about 2%.
3. Repeat this in the spring 2017 budget with the remaining 4% of HST on power bills so rates would be down 2% for residential and commercial users and 4% to 5% for farm and industrial customers.
4. In the 2018 budget, the Debt Retirement Charge will lapse. At that time, rates can be adjusted so residential rates fall 3% and farm and industrial rates by an additional 15%.

The cost to government is $250 million in HST foregone in 2016 and $500 million in 2017. There is no foregone Debt Recovery Charge revenue, as that charge ends in 2018 in any event. The $500 million HST foregone is about one third of one percent of Ontario's gross revenue.

The effects on power bills would be as follows:

> **Total bills would fall from $18 billion including all taxes and delivery to $16.4 billion.** The cost of power and delivery would remain at $16.4 billion without provincial taxes. The power companies and delivery utilities would continue to receive the same total income. However the allocation of costs between customer groups would change, but all groups would pay less.
>
> Residential customers now pay $5.8 billion. Their costs would fall to $5.5 billion.
> Institutional and commercial users now pay $7.2 billion. Their costs would be $6.9 billion.
> Farm and Industrial customers now pay $5 billion. Their costs would be $4 billion.

Everyone would pay less. The industrial rate which now averages 10 cents Canadian a kWh all in, would fall to about 8 cents Canadian or 6.4 cents US a kWh. At that price, Ontario would be near the US average cost for industrial power, and be competitive with almost all industrial states.

Farm rates in Ontario now average 17 ½ cents a kWh all in. They would fall to 15 ½ cents. Still high compared to US border states and Quebec, but much improved.

Farms and companies will increase their investments and employment in Ontario once they see that Ontario is serious about restoring competitive power prices for farms and industry. Manufacturing investment in Ontario is now just over $6 billion a year for the period 2009 to 2014, down from $9 to

$10.5 billion in the period 1995 to 2007. The power costs savings of over $ 1 billion a year will attract new investment. On that basis, coalition members believe manufacturing investment will rise from $6 billion to $8 billion a year. At a 'cost per job' of $175,000, that investment will add 9,400 new jobs each year in Ontario's private sector to supplement the present 96,000 jobs generated here annually.

These 9,400 new workers will earn and pay income tax, and spend and pay HST. Ontario will recoup more from these new workers than it would give up. And these new workers would not be drawing social assistance or be in school. They would not be costs to the public. They will be assets.

There are important physical measures to curb power costs. These should not be ignored. Ontario should examine whether Quebec hydro is a lower cost alternative than new or refurbished nuclear. We do not know the answer to that, but it is consequential. Ontario pays over $1.2 billion a year to cover the costs of exporting power at losses to the US. Rules should be changed so this power can be sold at the same prices, to Ontario users. There is no reason for Ontario to subsidize US business with low cost hydro. And this power is exported under a special transmission rate that is just 10% of the domestic transmission rate. This compounds the losses and should be changed. Night time storage with fly wheels, electric vehicles and pumped storage can all help reduce night losses and simultaneously reduce the cost of peak hour imports, often at well over 20 cents a kWh. And Ontario can support and encourage combined heat and power so fuel is used more efficiently, with saving for heat and power. These measures if pursued vigorously can reduce power costs by an additional 15%. But each year only a small part of capacity can be changed, and each change entails a capital cost. Over 20 years, reductions of ¾ of a percent a year would slowly grow, but they would take 20 years to yield 15%.

With Farm/Industrial Rates and the best of the above physical measures, Ontario's industrial rates can be down 20% in three years and 35% in 20 years compared to where they would otherwise be. Without Farm/Industrial Rates we may lose the industrial base needed to finance the physical investments in lower cost power and maintain the grid. Farm/industrial rates will be good for jobs, the economy, the hydro system, Provincial revenues, and for all of Ontario.

Ontario had Farm/Industrial rates for almost a century. Every competing jurisdiction still has them. There is no prospect of really competing with those places and returning to industrial competitiveness, even for advanced manufacturing, without them. Farm/Industrial Rates can be phased-in in three years and the new investment and jobs will start directly with the assurance of such rates in the 2015 Budget.

Farm/Industrial Rates are effective and affordable. The 9,400 otherwise unemployed people each year cannot afford to wait. Farm/industrial Rates can be the difference in their lives and once again, an underpinning of Ontario's prosperity and growth.

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Attachments

The following attachments provide numerical support for key aspects of the Farm Industrial Rate proposal.

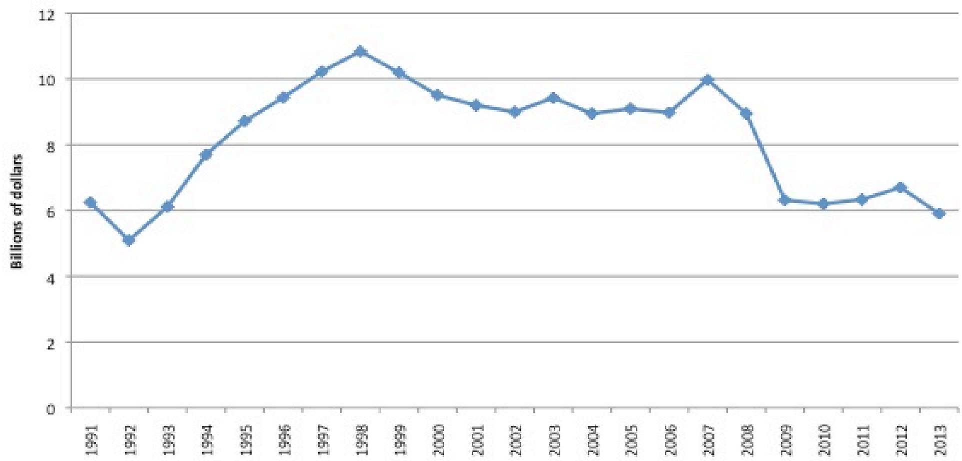
1 Manufacturing Job Losses in Ontario Census Metropolitan Areas 2004 – 2014

Ontario CMA's	**% Manufacturing in CMA**		**Jobs Lost in 10 Years**
	2004	**2014**	**Net**
St. Catharine's – Niagara Falls	13.2	11.1	2,300
Sudbury	3.7	3.2	300
Guelph	23.7	20.1	2,800
Peterborough	9.7	7.3	1,800
Brantford	26.1	20.9	1,800
London	16.2	12.0	10,700
Ottawa	6.5	3.7	9,700
Kingston	8.8	5.2	2,100
Kitchener – Waterloo	26.7	18.2	11,600
Toronto	18.1	10.6	158,700
Windsor	28.5	20.7	15,300
Oshawa	18.4	10.1	12,100
Thunder Bay	9.6	4.9	3,500
Barrie	20.6	10.4	7,300
Hamilton	22.4	11.7	36,100
Total	**17.5**	**10.7**	**270,100**

Total Ontario unemployment has hovered at the 600,000 level for 6 years. Manufacturing job losses are a major contributor. Agriculture with employment of just 160,000 has reduced employment by 20,000.

Source: Stats Can Labour Force Survey

Figure 1: Total Nominal Capital Expenditure in Ontario Manufacturing, 1991-2013 (Data source: Statistics Canada, Table 290005)



Note – manufacturing investment peaked in 1998 at $10.5 billion and was near at $10 billion 2007. In 2011 it was just under $6 billion. We believe lower power rates can restore private manufacturing investment in Ontario to the $8 billion level.

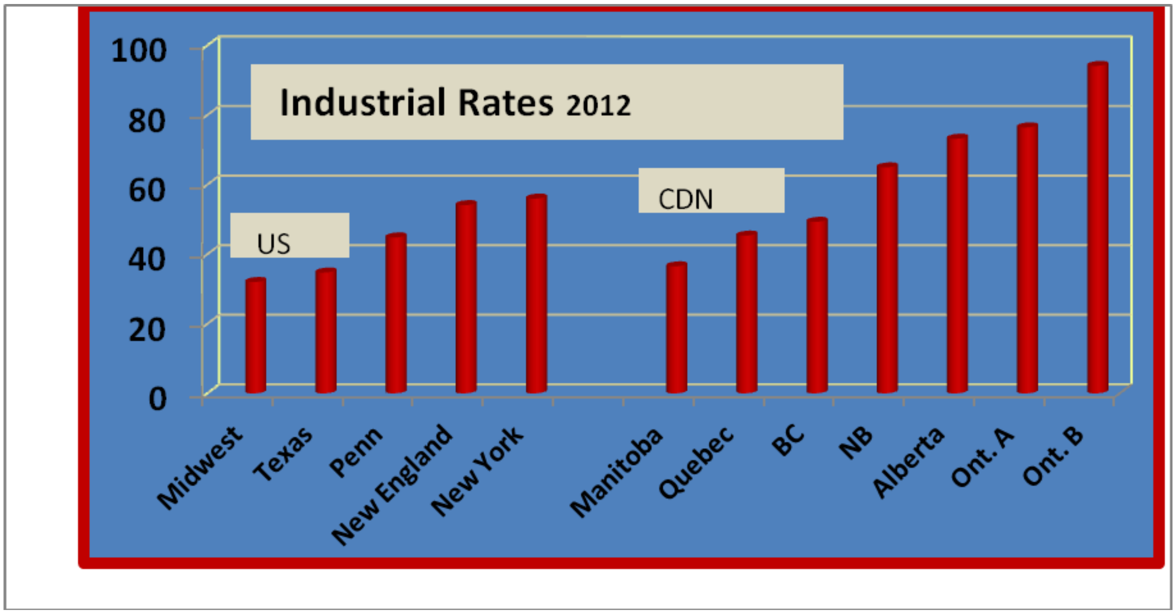
3 Estimated New Jobs, Profits and Provincial Tax Revenues

Year	New Jobs	Jobs Cumu	New Income	Cumulative Income	New Profits	Cumulative Profits	New Gross Income	New Taxes
1 & 2	4,500	4,500	$200 M	$200	$60	$60 M	$260 M	$55 M
3	9,100	13,600	$410	$610	$300	$360	$970	$188
4	9,100	22,700	$410	$1.02 B	$300	$960	$1.68 B	$320
5	9,100	31,800	$410	$1.43	$300	$1.260 B	$2.39	$452
6	9,100	40,900	$410	$1.84	$300	$1.560	$3.1	$585
7	9,100	50,000	$410	$2.25 B	$300	$1.86	$3.8	$717
8	9,100	59,100	$410	$2.66	$300	$2.16	$4.5	$849

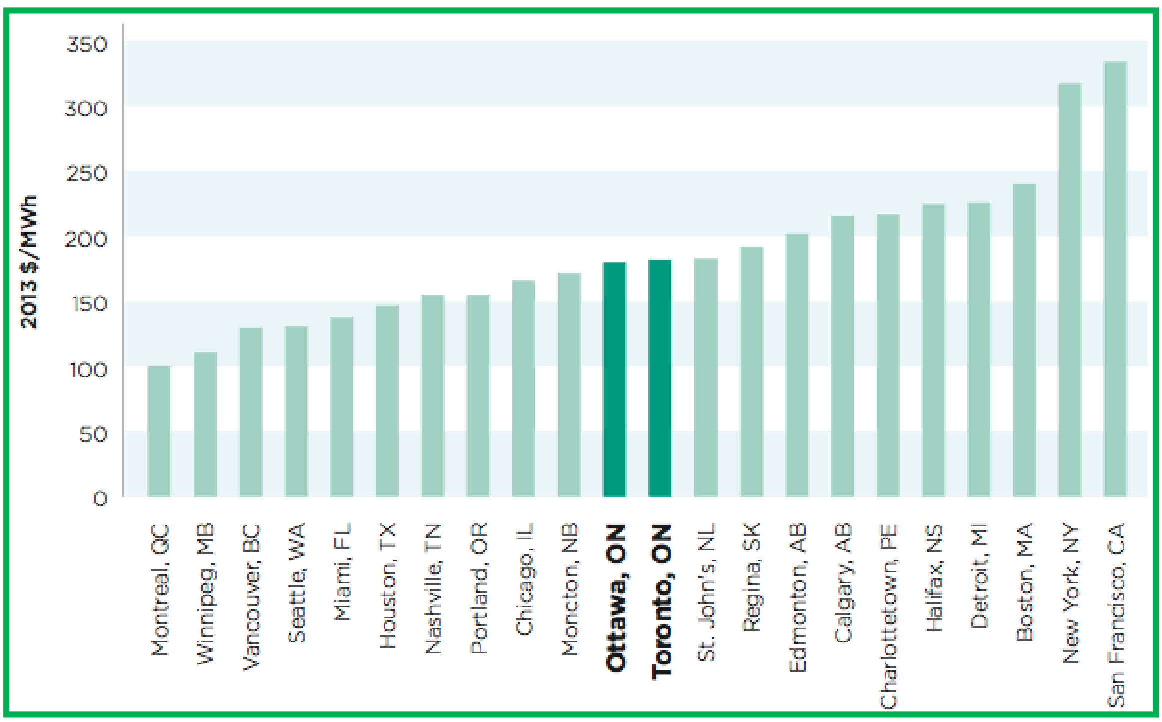
No change in tax rates or application. Avg tax rate of 8% HST on 75% of personal income, 9% income tax on personal income, $400 per new job in fuel, alcohol taxes, 11.5% on 9% of added corporate income

Note: In year 5 tax revenues are almost at the old level. In year six they exceed the old level. From the first year taxes foregone are partially recovered. The net in year 2 is $445 million. In year 3 it falls to $312 million. In year 4 it is $180 million and $48 million in year 5. Thereafter it is positive.

4 Comparing Ontario Power Rates With Competing Jurisdictions



Residential Rates Ontario and Competing Areas



5 **Average Retail Price of Electricity to Ultimate Customers by End-Use Sector**, by State, July 2014 and 2013 (Cents per Kilowatt hour)

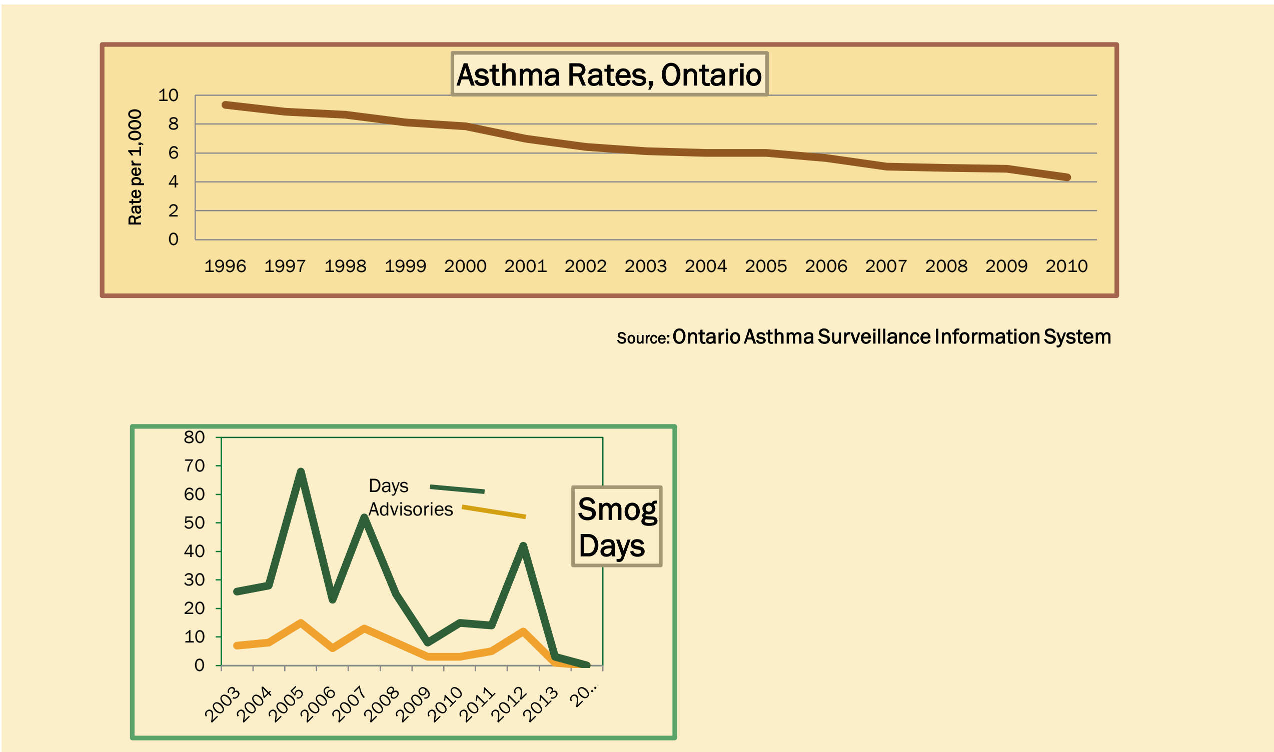
Census Division	Residential		Commercial		Industrial		Transportation		All Sectors	
	July 2014	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**
New York	20.31	20.04	16.73	16.67	6.36	6.26	14.33	14.38	16.75	17.08
Penn.	13.96	13.12	9.49	9.26	7.10	7.23	7.39	7.74	10.35	10.08
Illinois	11.62	10.04	8.77	8.01	6.25	5.78	4.98	5.89	8.95	8.12
Indiana	11.67	11.05	9.88	9.40	6.95	6.62	9.82	9.30	9.17	8.81
Michigan	15.11	15.06	11.06	11.46	7.73	8.30	--	9.29	11.37	11.99
Ohio	13.44	12.87	9.96	9.41	6.83	6.31	7.80	6.88	10.21	9.72
N. Carolina	11.29	11.17	9.00	9.05	6.92	6.85	7.70	7.85	9.68	9.56
S. Carolina	12.55	12.12	10.23	10.02	6.53	6.22	--	--	9.99	9.56

U.S. Energy Information Agency **Data for July 2014** **Release Date:** September 25, 2014

All states have an industrial power rate that is substantially lower than that for other uses. These states, which Ontario competes most directly with, have industrial power rates that are typically half of their residential power rate. Compared to rates paid by Ontario industry, these rates are 25% to 40% lower. Ontario Farms of the sort that would be classed as General Service here in Ontario, also enjoy these lower rates.

Ontario's rate for rural businesses homes and farms averages in US currency averages 19.8 cents, or almost equal to the highest cost residential power in New York State.

6 Some overlooked benefits of off-coal



Note: asthma and smog days are greatly reduced. It is unlikely that smog days will stay at zero, but very likely that they will remain vastly lower than they were before 2007.

7 Power Rates in Nova Scotia 2014

	Min. Monthly Service Charge	KWH Rate	Demand Charge per KW	Fuel Adjustment Rider
	Dollars per month	Cents per kwh	Dollars per kva	Cents per kwh
Residential	10.83	14.251	0	0
Small Commercial	12.65	15.092 1st 200 kwh 13.278 over 200	0	0
Commercial	12.65	11.208 7.929 over 200	10.497	0
Large Commercial	12.65	8.029	13.345	0
Small Industrial	12.65	10.09 7.707 over 200	7.714	0
Medium Industrial	12.65	7.241	12.501	0
Large Industrial	12.65	7.62 7.222 (interruptible)	11.995	

Source:
https://www.nspower.ca/en/home/about-us/electricity-rates-and-regulations/default.aspx

There are also rates for Charities, Un-metered Users and Municipalities
The example illustrates that farm/industrial rates can be administratively straight forward.
Specific rates and class boundaries between small, medium, large would be different in Ontario.

8 Re-Allocation of Costs

Third Year of Phase-In **HST &Debt Charge Removed** **Cost $0.5 Billion**
Benefits Shared

Effects of Proposal on Total Annual Costs

	Present Power Costs in billions of dollars	With Proposed Changes in billions of dollars	Change
Provincial Taxes	$1.6	**$0**	-100%
Cost of Power	16.4	16.4	**No Change**
Commercial/Institutional	7.2	6.9	**- 2.3%**
Residential	5.8	5.5	**- 5.2%**
Farm/Industrial	**5**	**4.0**	**- 20%**
Total Costs	**$18**	**$16.4**	**-8.9%**

9 Supporting Groups

Canadian Cement Association, Ontario Federation of Agriculture, Ontario Construction Secretariat, Canadian Foundry Association, Canadian Plastics Industry Association, Quinte West Manufacturers' Association and Northumberland Manufacturers' Association

10 Contact Information:

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