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The Honourable Greg Rickford
Minister of Energy, Northern Development and Mines
99 Wellesley St West – Room 5630
5th Floor, Whitney Block
Toronto, ON
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RE: Consultation on industrial electricity prices

Overview

For more than a century, the Ontario Chamber of Commerce (OCC) has supported economic growth in Ontario by advocating for business priorities at Queen's Park on behalf of our diverse 60,000 members, including local chambers of commerce and boards of trades in over 135 communities.

Businesses across Ontario have consistently reported that the cost of electricity is undermining their capacity to grow, invest in new equipment and technologies, hire new workers, and ultimately compete. From 2011 to 2016, Ontario's on-peak electricity prices rose by 71 percent while off-peak prices rose by 149 percent, far outpacing economic growth.[1] Industrial rates within the province are now amongst the highest in Canada and higher than most jurisdictions across North America. In Toronto, industrial consumers pay, on average, two to three times as much for their electricity as those in Montreal, Vancouver, and Calgary.[2] It is no surprise that some businesses are considering relocating outside of Ontario and prospective investors are discouraged. These frustrations were recently confirmed in our 2019 Business Confidence Survey, in which 62 percent of respondents cited electricity costs as critical to their competitiveness.[3]

While the problem is clear, the solution is not. As the Government of Ontario considers ways to restructure industrial electricity rates, the OCC urges it to consult businesses thoroughly and weigh

[1] Ontario Energy Board. 2019. "Historical electricity rates." https://www.oeb.ca/rates-and-your-bill/electricity-rates/historical-electricity-rates.
[2] Mathew Wilson and Alex Greco. 2018. *Manufacturing Ontario's Future; Leveraging Ontario's Manufacturing Sector to Drive Ontario's Economic Success*. Canadian Manufacturers and Exporters. https://cme-mec.ca/wp-content/uploads/2018/12/CME-ON-Manufacturing-Strategy-Final-compressed.pdf.
[3] A survey of n=1091 OCC members was conducted online by Navigator between September 26 and November 9, 2018.

its options carefully before introducing any substantive changes. In this submission, we would like to offer feedback on the following areas of concern to our members: the Industrial Conservation Initiative, the Northern Industrial Electricity Rate program, and Market Renewal.

The Industrial Conservation Initiative (ICI)

The Independent Electricity System Operator (IESO)'s ICI allows large electricity consumers to manage their Global Adjustment (GA) costs by reducing demand during peak periods. By allowing businesses who participate (referred to Class A consumers[4]) to substantially lower their electricity bills, the ICI strengthens Ontario's competitive position vis-à-vis other jurisdictions. By reducing demand during peak periods by over 1,400 MW, the program is also helping to create a reliable and sustainable system and deferring the need for investment in new electricity infrastructure. Managing peak demand will become especially critical in the next few years when expected capacity shortfalls arise.

The main drawback of the ICI is that it shifts more GA costs onto residents and businesses that are not eligible for the program or unable to take advantage of it by changing their consumption patterns or self-supplying power. For those consumers, electricity rates have become unsustainably high. Further complicating matters, the ICI does not give industrial consumers year-over-year cost predictability, which is critical to their ability to engage in long-term planning.

Eliminating the ICI entirely is not a viable option. Doing so would result in a sudden rate increase for Class A consumers – many of which have adopted extensive onsite energy management solutions – and this would have detrimental consequences for their competitiveness. That said, the government should consider ways to improve the structure of industrial rates for consumers that have not benefitted from the ICI. The following two-pronged proposal of a Hybrid Rate Model and Load Growth Strategy is an example of one pragmatic alternative:

The **Hybrid Rate Model** is designed to preserve the benefits associated with the ICI for Class A while creating a new option for industrial customers that are unable to benefit from the program. Specifically, the Hybrid Rate Model would:

- Allow all consumers that currently use the ICI to remain in the program if desired.
- Limit the time to enlist new participants to the IESO's first capacity auction in 2023.
- Advance policy to enable deployed distributed energy resources (DERs) to provide future ancillary grid services.
- Develop and introduce time-of-use based industrial pricing for ICI customers seeking greater price stability, inactive ICI customers, and industrial Class B customers. Rates should be based on the marginal cost of energy during the hour it is used plus a calculated marginal

[4] Customers participating in the ICI are referred to as Class A. Class B consists of all other energy consumers in the province.

capacity cost for units generating the energy used during peak periods. In this way, these customers would not pay the legacy costs of previous renewable energy projects.

Meanwhile, the **Load Growth Strategy** is designed to attract new electricity customers to Ontario, which would reduce overall rates by distributing the fixed GA cost across a larger number of consumers. Specifically, the Load Growth Strategy would:

- Establish an incentive mechanism to attract the right load profile. The mechanism should provide price certainty and recover the marginal energy cost to service new loads plus a small capacity adder to contribute to a reduction in fixed system costs for all customers.
- Additional load growth is expected to come from electrification of transportation.

This proposal has the potential to reduce rates for Class B consumers, give industry more options, encourage private investment in DERs, and achieve wider economic development objectives by incenting new investment.

Should the Province decide to implement the Load Growth Strategy, it should consider industry feedback on the IESO's Industrial Electricity Incentive (IEI) – a similar program that ran from 2012 to 2014. The IEI was a practical solution to both incentivize economic development and reduce electricity costs for existing industrial customers. However, its success was limited by its design as an application-based program managed by the IESO with a short window for enrolment. This structure failed to reflect the process through which businesses realistically make investment decisions.

Instead, the Ministry of Economic Development, Job Creation and Trade should have the discretion to use the program as a tool to incentivize new industrial investments, where appropriate, while the IESO would be responsible for its administration. This is consistent with economic development programs used elsewhere, such as New York's ReCharge NY and Florida Power and Light's Commercial/Industrial Service Rider.

The Northern Industrial Electricity Rate (NIER) Program

The NIER program was designed to support industrial competitiveness in Northern Ontario, where energy costs are especially high. Participants receive a rebate of two cents per kilowatt hour, with individual rebates capped at average consumption levels between 2013 and 2016, or $20 million per year per company – whichever is lower. The NIER program has proven critical to regional development, enabling businesses to invest more and sustain high-quality jobs, and has helped unlock the economic potential of our mining and natural resource sectors.

With the program fully subscribed and contracts scheduled to expire in 2022, industry is facing considerable uncertainty about the future of their energy costs. In addition, contract renewals can be costly and time consuming to complete. The OCC recommends:

- Extending contracts beyond 2022;
- Introducing contract terms of 10 years instead of 5 years; and

- Reducing the administrative burdens associated with the program. This could include replacing quarterly reports with annual reports, and only requiring an Energy Management Plans (EMP) once a proponent has been accepted into the program instead of requiring an EMP as a condition for inclusion on the NIER waitlist.

Market Renewal

The OCC supports the direction the IESO is taking with the proposed updates to electricity procurement under its Market Renewal Program. Moving to a more competitive capacity market has the potential to create cost savings for Ontario's electricity system by procuring supply on a shorter-term and more cost-efficient basis.

However, while the capacity auction model is a welcome development, the Government of Ontario must ensure it is able to continue guaranteeing a reliable supply of power – especially given the long-term capacity shortfalls that the IESO projects to begin in 2023. In this context, it is essential that Ontario consider whether long-term investments in new builds may be necessary to hedge the risks inherent in market mechanisms.

Conclusion

Industrial electricity rates are one of the top factors affecting business competitiveness in Ontario. The OCC has long called on the government to take a principled approach to energy planning that balances affordability, transparency, and flexibility. Concerns with the current system will not be resolved quickly or easily, but the government's decision to open consultations is a welcome first step.

On behalf of Ontario's business community, the OCC recommends that the Province maintain the value of the ICI while creating new options for non-beneficiaries, extend and streamline the NIER program, and proceed with procurement reform under Market Renewal while securing reliable supply of power to meet long-term demand. We look forward to continued engagement with the government on this and other files.