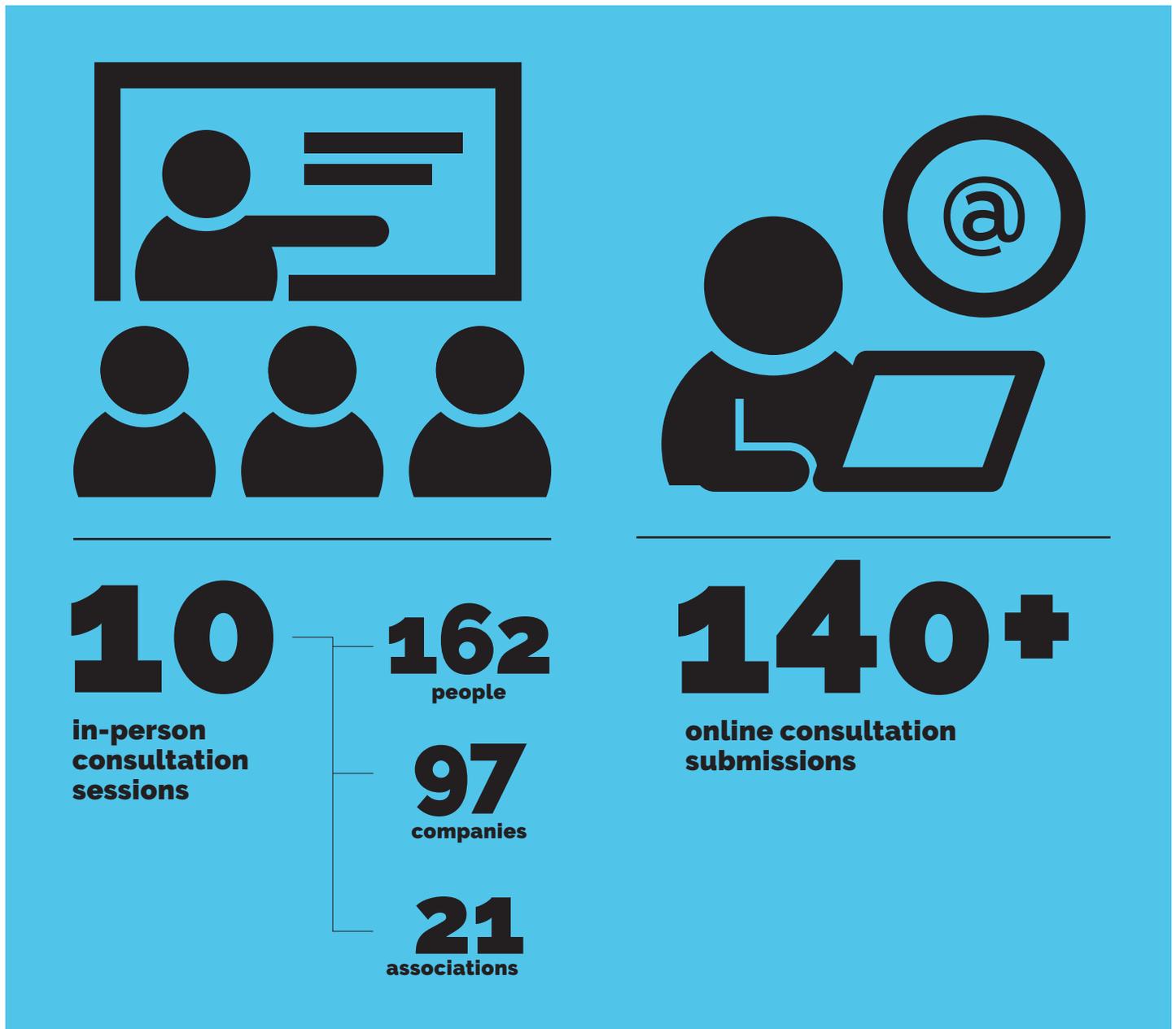


NOVEMBER 2019

CONSULTATION ON

**INDUSTRIAL
ELECTRICITY
PRICES**



From April 1 to July 16, 2019, we heard from businesses about Ontario’s industrial electricity pricing framework, program design, the cost of running the electricity system and burden reduction issues.

OVERVIEW

To ensure the province is open for business, Ontario launched a consultation on industrial electricity prices in April 2019. The consultation focused on how the electricity system impacts industrial competitiveness. We wanted to hear from stakeholders about electricity rate design, existing rate mitigation programs, electricity system costs and burden reduction.

We are taking this feedback into account as we consider policy changes aimed at ensuring Ontario's industrial consumers have a fair and stable pricing framework that allows them to focus on their core business.

ABOUT THE CONSULTATION

Online consultations were held from April 1, 2019 to June 14, 2019. Stakeholders had the opportunity to submit written responses to questions posted on the industrial consultation webpage. In total, more than 140 written submissions were received through the online process.



In-person sessions were held between April and July in the following cities:

9
cities

- Chatham
- Dryden
- Hamilton
- Oakville
- Ottawa
- Peterborough
- Sault Ste. Marie
- Sudbury
- Toronto

These included conversations with members of key industries across Ontario, including:



AUTOMOTIVE



FORESTRY



MINING



AGRICULTURE



STEEL



MANUFACTURING



CHEMICALS

CONTEXT

Ontario has roughly 20,000 industrial electricity consumers that represent about one-quarter of total electricity demand in the province. Most large industrial consumers participate in the Industrial Conservation Initiative (ICI). ICI participants typically pay lower electricity rates than they would otherwise since they are charged Global Adjustment (GA) based on their individual contribution to province-wide peak demand during the top five peak demand hours each year. This pricing framework incentivizes consumers to reduce demand during peak demand hours to reduce the rate of GA that each are charged.

ICI participants (also called Class A consumers) include mines, chemical plants, and various types of manufacturers. Non-industrial consumers can also participate in ICI, and typically comprise large commercial or institutional buildings such as warehouses, offices, and hospitals.

Smaller industrial consumers and most institutional or commercial consumers do not participate in ICI, as they are either ineligible or choose not to due to their operating profile. Consumers that do not participate in ICI (also called Class B consumers) include small businesses, such as corner stores, restaurants, and smaller manufacturers. Class B consumers each pay the monthly Class B GA rate for each megawatt hour consumed.

Generally, most consumers that are both eligible for ICI and able to reduce their peak demand participate in the program. Reductions in the ICI eligibility threshold that took effect in 2017 provided more consumers with the option to participate in ICI. Some consumers find it more difficult to reduce demand during peak demand hours than others, and as a result, the GA rate that each consumer is charged varies considerably.

WHAT WE HEARD

The goal of the consultation was to hear firsthand from Ontario's industrial consumers about how Ontario's electricity system can help make businesses more competitive. With electricity being a significant cost for many businesses, participants were highly engaged and invested in the consultation.

Ontario's industrial electricity consumers are diverse with wide-ranging needs. The feedback received through online submissions and during the in-person sessions affirmed that when it comes to industrial electricity prices, what businesses desire most is stable, competitive electricity rates.

We also heard that the cost of electricity poses challenges for many industrial electricity consumers, regardless of sector or location. Participants at the same time acknowledged the fiscal challenges the government is facing, and the complexity involved when considering changes to Ontario's industrial electricity pricing policy.

A more detailed summary of what we heard is outlined in the key findings section below. The content is organized according to the following topics:

- A. Industrial Conservation Initiative (ICI)
- B. Competitive electricity rates
- C. Operational impacts of ICI
- D. Targeted support to address cost shifting
- E. Flexibility and choice
- F. Economic development programs
- G. Regulatory burden

Overall, the feedback suggests there may be opportunities to make changes to the province's industrial electricity pricing framework to help businesses better manage their electricity costs. However, there are differing views on the size and scope of changes needed.

A. INDUSTRIAL CONSERVATION INITIATIVE (ICI)

Value of ICI: Many stakeholders noted that ICI has been critical to the successful operation of their business and helped make them competitive. Several stakeholders went further and noted that the viability of their business was dependent on realizing savings through the program. While recognizing that ICI is not perfect, many expressed that they do not want to see the program changed or eliminated. Many noted that ICI has historically provided important benefits to industrial customers, reducing electricity costs for businesses that employ many Ontarians and acknowledged the benefits the program provides to the electricity system.

There were a number of criticisms of ICI, even amongst participants that were generally satisfied with the program. In addition to lost production associated with efforts to reduce peak demand (see section C for further details), a widely held criticism was that the achievable savings in the program compelled companies to incur significant costs to participate in the program. Several companies told us that they have had to employ energy consultants to help them manage peak periods, and that they would prefer to focus on their lines of business rather than spend significant time and resources managing peak periods.

Many that were not supportive of the program were non-participants that felt the cost shift from participants to non-participants associated with ICI to be unfair, as not all the costs included in GA are capacity-related. Non-participants frequently raised the concern that ICI offered participants a competitive advantage.

Recognition of investments: Many participants noted that they had made significant investments related to ICI, including installing behind-the-meter (customer-owned) generation or retaining energy management expertise. In some cases, stakeholders have employed energy managers that are dedicated to forecasting system peaks. As such stakeholders have advised that changing the program “would not be respectful” of those investments. One participant wrote that “companies like ours

have made investments based on this design and we have altered our investment/operating decisions based on ICI. By changing it now, it will undermine and disincentivize investments, good behaviors, and rational decision making.”

Some participants called for transitional measures if significant changes to ICI were to be made.

Bigger isn't necessarily better: A significant number of stakeholders who identified as ICI participants gave feedback that the program has become too big. As the number of ICI participants has increased, some consumers feel that it has become more difficult to forecast peaks, which can have major financial implications. One industrial consumer indicated that missing a peak demand hour would cause it to incur GA charges that would be “catastrophic to our business.”

B. COMPETITIVE ELECTRICITY RATES

Impact on Ontario's competitiveness: A recurring theme in the consultations was that Ontario's high electricity prices – relative to those of competing jurisdictions – have made the province less competitive, leading to a perception that Ontario is not business-friendly. Participants noted that any increase in electricity costs would impact their ability to compete and grow. Participants also communicated that while they saw value in stable and predictable electricity rates, they would not be interested in paying more in return for increased stability in rates.

A number of participants noted that high or increasing electricity bills could play a role in whether they invest in Ontario or in a jurisdiction with lower electricity prices. “The lack of electricity infrastructure or untenable electricity prices can be the tipping point for whether greenhouse operations expand in Ontario or abroad, which can lead to permanent loss of economic development opportunities,” wrote one participant from the agricultural sector. This sentiment was echoed by participants from other major sectors.

Size of Global Adjustment (GA): Many participants noted that GA charges comprise most of their

electricity bill. We heard throughout the consultation that reducing GA charges was viewed as the key to reducing industrial electricity rates. This fed into many participants' comments that reducing GA by transferring some of its costs could help all consumers better manage electricity costs, even those that do not participate in ICI.

As one participant noted, "the problem is not with the ICI construct itself, but rather with the size to which the GA has been allowed to grow."

Participants noted that there are a number of options available to reduce total system-wide annual GA costs, such as renegotiating generation contracts, reducing the regulated return on equity for utilities, and shifting some costs to the tax base.

Investment and expansion: We also heard that businesses are taking the province's industrial electricity rates into account when making operational and strategic decisions, such as investing in existing plants or deciding where to open new plants.

A few participants noted that they were still choosing to invest in their operations in Ontario despite high electricity prices. One participant said they "made the critical decision to invest and upgrade our existing assets, rather than shutting them down and leaving the province, based on our belief that the framework exists to support our long-term viability."

Importance of predictable rates: Stakeholders told us that predictability is important for their business operations, and that "erratic" rates were extremely frustrating from a financial planning perspective. As one participant wrote, "unpredictable electricity bills and the confusion that GA causes for industrial users dampen economic growth even more than high electricity prices."

C. OPERATIONAL IMPACTS OF ICI

Lost production: Participants made clear that lost production resulting from efforts to reduce peak demand as an ICI participant needs to be addressed. During peak periods, many businesses often have

to choose between shutting down production (potentially disrupting employees or losing business and money) or continuing production and paying much higher electricity bills.

Shutting down production is a significant undertaking for some operations. One participant noted that because of the challenge of forecasting peaks, “many like us take the simplest approach and simply close up shop for up to 15 days each year (many of which turn out not to be peak days, so the shutdown did nothing to support IESO grid reliability or reduce peak pricing for the province).” Another participant noted that “this initiative requires a lot of work and downtime” to avoid all five peaks: “depending on weather, we need to curtail 15-20 times each year.”

We heard from stakeholders that predicting peaks is difficult – even if they shut down production, they may inadvertently miss a peak, lose the “ICI benefit” and therefore be out both the GA charges and costs incurred from lost productivity. Stakeholders told us that they would rather focus on their lines of business rather than electricity cost mitigation.

Alternatives to shutting down: Some participants noted that, in lieu of disrupting production, they would consider installing, or have already installed, behind-the-meter generation or electricity storage systems. Others mentioned that they struggled to justify the cost for investing in electricity generation or storage solutions to their head offices or thought that these investments “seem risky”, and that these alternatives would result in additional generation being installed in a system that already has a capacity surplus.

D. FLEXIBILITY AND CHOICE

The importance of choice: We heard from stakeholders across all sectors that competitive rate options are important and would help make Ontario more business-friendly. As one participant wrote, “given the diverse range of customers operating in Ontario with differing needs, enabling customer choice and control of their energy systems is critical. A range of pricing options and market-based mechanisms...will empower customers to make decisions that address their individual needs.”

Accommodate diversity: We heard that Ontario’s industrial landscape is diverse and that “even within the same company or location, different divisions may have different requirements.”

Avoid overcomplication: Some participants noted that having a number of programs could “further complicate an already complicated system, pick winners and losers and mask the real costs of years of government policy choices.”

E. ECONOMIC DEVELOPMENT PROGRAMS

Importance of the Northern Industrial Electricity Rate (NIER) Program: Several northern businesses who participated in the consultation expressed satisfaction with NIER and stressed its importance. A participant from the mining sector shared that NIER’s incentives have been “critical” to their global competitiveness and have “promoted an energy-efficient culture and decision-making process at our facilities.”

Another participant from the forestry sector told us that NIER was the only thing keeping their Northern Ontario operation competitive within their corporation, which includes plants in other jurisdictions. Another participant commented that “NIER is a very specific program designed to help a series of primary industries that are forced, by the materials they harvest, refine and sell, to locate away from infrastructure like ready electricity. I believe there remains a place for NIER to keep those anchor industries vital in rural Ontario.”

Some participants located elsewhere in the province expressed a desire to be able to participate in a similar program. Implementing a program similar to NIER for southern Ontario “would improve industrial competitiveness and keep manufacturing plants in Ontario,” wrote one automotive sector participant. Other participants told us that they would like to see NIER expanded province-wide.

We also heard from participants who were not supportive of NIER. One participant wrote that they are “supportive of an electricity system that treats all customers in a fair, transparent and equitable

manner and is predicated on market-based competition factors”.

We also heard from participants who were not supportive of NIER. One participant wrote that “NIER creates inter-provincial market distortions by giving preferential rates to Northern businesses within the same business sector. The program should be recast as a program for energy-intensive and trade-exposed industries”. Another participant echoed this view, writing that they are “supportive of an electricity system that treats all customers in a fair, transparent and equitable manner and is predicated on market-based competition factors”.

New programs to offset electricity costs: Many participants said they would welcome economic development programs to offset incremental electricity costs similar to those offered elsewhere, like the Tennessee Valley Authority incentive program, New York state’s ReCharge New York (RNY) program or Quebec’s Rate L. We heard that stakeholders thought creating such programs would “attract investment to Ontario, create jobs, and lower electricity costs for existing customers.”

Industrial electricity rate: Some participants suggested Ontario introduce a fixed industrial electricity rate like in Quebec as they felt it would provide stability and predictability, as well as help the province better compete with incentives and competitive rate programs offered by other jurisdictions.

Funding new programs: We heard from participants that noted having more companies in Ontario provides economic benefits (in addition to cultural and social benefits), and programs that provide economic incentives should be funded by the tax base rather than by the electricity market. Some suggested that the current tax-based funds used to provide rate relief to residential consumers could be better spent helping companies manage electricity costs to create jobs. Some participants noted that retaining or attracting industrial customers would increase provincial tax revenues.

Competitive evaluation process: Participants had mixed feedback on targeted electricity programs that use a competitive evaluation process to achieve economic development objectives. Some cited a lack of support for companies that have already made significant capital investments and who are well-established.

Support for commercial and small industrial electricity (Class B) consumers: Participants mentioned the need to support non-ICI participants as the ICI shifts costs to them and they face considerably higher per unit electricity costs. Participants provided varied solutions, such as:

- providing demand response benefits to non-ICI participants;
- removing businesses that are not contributing to peak reductions from ICI; and
- allowing businesses to consolidate accounts corresponding to different locations in order to qualify for ICI.

F. REGULATORY BURDEN

Simplifying service: We heard from many participants that simplifying consumer billing and connection requirements, among other things, would improve electricity system accessibility and consumer satisfaction.

A number of participants told us that electricity bills are too complex and that simpler bills would allow consumers to better understand their electricity costs. Other participants that operate multiple facilities across the province suggested that electricity bills should be standardized across local distribution companies.

To improve system accessibility, one participant suggested that the Independent Electricity System Operator (IESO) work with the Ontario Energy Board and Hydro One to make the interconnection processes easier for behind-the-meter generation.

IESO reporting: Participants noted that information published on IESO's website should be clearer since consumers rely on that information to make business decisions. Participants shared that IESO reporting informs their financial planning, investments, and even how they operate their facility in real time. Some also suggested that it would improve their business's operating efficiency if they were given more information, or access to adjusted information, that is used for billing.

We heard many specific comments about improving the reporting of peak forecasting. We also heard

suggestions for IESO to improve the hourly peak demand forecasts published on their website. Some stakeholders thought the current forecast updates are too irregular and that last-minute forecast updates influence consumption decisions of ICI participants. We also heard suggestions for improved, more accurate peak forecasting.

Lastly, many participants commented that IESO should use Ontario demand data, which is available in real-time, to determine GA charges for Class A consumers rather than the final, adjusted data that is available with a lag of several days that IESO currently uses. Participants mentioned that such an adjustment can negate their efforts at reducing demand and can materially affect their businesses.

NEXT STEPS

The Ministry of Energy, Northern Development and Mines is considering the feedback received through the consultation as it develops and considers options to reform the electricity pricing framework. The ministry intends to take an ongoing approach towards comprehensively addressing the issues presented during the consultations.