

Ministry of Energy

Office of the Minister

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July 9, 2015

Mr. Allan O'Dette
President & CEO
Ontario Chamber of Commerce
505–180 Dundas Street West
Toronto ON M5G 1Z8

Dear Mr. O'Dette:

This week the Ontario Chamber of Commerce released a report on the electricity system in Ontario and the importance of government leadership in helping businesses address energy costs. We value the perspective you've offered in the report on behalf of Ontario businesses, but remain concerned that many of the key aspects of electricity planning and system management were not captured in your report. As such, I would like to begin by offering you and your team the opportunity to have a briefing with the Ministry of Energy to discuss the detailed aspects of energy in Ontario and discuss in detail each of your recommendations. I encourage you to reach out to my staff to arrange this session.

In the meantime, I want to assure you that our Ministry is working hard to help Ontarians of all walks of life to manage their electricity costs. This includes a steadfast commitment to help businesses across the province address their energy costs and find new and innovative ways to save. As we plan for Ontario's energy needs for the next 20 years, conservation will always be the first resource considered. It is the cleanest and most cost-effective energy resource, offers all consumers a way to reduce their energy bills, and reduces system costs borne by building new generation, transmission and distribution infrastructure.

Conservation plays a central role in many of our important government programs that help businesses lower their electricity costs. In partnership with Ontario's local distribution companies (LDC) and key energy agencies, our government has developed Ontario's Five-Point Small Business Energy Savings Plan, which includes the saveONenergy for Business conservation programs. These programs help small businesses throughout the province to conserve energy, manage cost planning, and save money.

The Industrial Conservation Initiative (ICI) provides lower prices to eligible large electricity consumers that reduce their consumption during peak periods. Last year we expanded eligibility to this program. As a result of ICI, we estimate that peak demand in Ontario was reduced by 1,050 MW in 2014, or more than enough to meet the peak needs of a city the size of London, Ontario.

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In addition to ICI, the Northern Industrial Electricity Rate Program (NIERP) rebates two cents per kilowatt-hour to the largest forestry, mining and steel production companies. Prices may be reduced by up to 25 per cent. As well, the Industrial Electricity Incentive (IEI) offered reduced electricity rates for companies starting or expanding operations in Ontario. Contracts were awarded earlier this year.

It's also important we underscore that industrial electricity prices in Ontario are competitive with many comparable jurisdictions. While comparing prices is never a straightforward task, Ontario's industrial prices are in-line with average industrial electricity prices in many U.S. states, including Minnesota, Pennsylvania, Michigan, New Jersey and California, according to data published by the U.S. Energy Information Administration. The average electricity price for Class A consumers in Ontario was about \$84/MWh in 2014. Many of the larger industrial customers in Ontario, particularly those in the north, pay less than this.

Further, access to natural resources can be the largest determinant of the final price of electricity to consumers. Some provinces, notably Manitoba and Quebec, have a much greater supply of water resources which support hydroelectric generation compared to Ontario, and this has a significant impact on electricity prices. Generating stations in hydro-rich provinces continue to operate long after their capital costs have been paid off, keeping prices down.

Your organization's report also discusses the Global Adjustment (GA) mechanism. By way of explanation, GA is a cost recovery mechanism for the clean, reliable generation and conservation our system needs. The costs that are recovered by GA must be recovered, either by GA or by some other mechanism. GA does fluctuate from month to month; however, the all-in commodity price is relatively stable over time.

With respect to the recommendations of your report, outlined below are some of my initial comments.

Recommendation #1: Transparency of electricity pricing and system cost drivers

We agree that it is beneficial for all consumers to be able to understand what goes into electricity bills and have the knowledge to manage their electricity usage. That's why Ontario has mandated that electricity bills must transparently break down the cost of electricity line-by-line to help consumers understand each aspect that contributes to the bottom line price. It shouldn't be lost that there are few commodities businesses and families consume that present a cost breakdown in this manner.

It's also why the Ministry of Energy has implemented the Ontario Energy Report, a quarterly report that provides an up-to-date snapshot of Ontario's energy sector. Going forward in report, we intend to include information related to industrial electricity prices.

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Recommendation #2: Keep the Debt Retirement Charge (DRC) on residential bills until it has been retired

The government is proud of our commitment to remove the Debt Retirement Charge (DRC) from the bills of residential electricity users after December 31, 2015. This is an important step in helping families reduce the cost of electricity by an average of \$70 a year. I would also note that as outlined in the 2015 Ontario Budget, the government remains on target to retire the residual stranded debt by the end of 2018, which is consistent with the projected timeline for removing the DRC from the bills of commercial and industrial consumers.

In addition to taking action to mitigate residential electricity rates through initiatives such as removing the DRC, as I have noted above, the government is also committed to reducing electricity rates for industrial consumers through programs such as ICI, NIERP and IEI, and for small business through the Ontario's Five-Point Small Business Energy Savings Plan.

Recommendation #3: Incentivize voluntary consolidation of local distribution companies (LDCs) through multiple channels

Since receiving the recommendations from the Distribution Sector Review Plan in 2012 that identified the potential for upwards of a \$1 billion in savings to ratepayers through Local Distribution Company (LDC) consolidation, the government has been committed to encouraging voluntary consolidation as well as innovative partnerships and transformation in the sector to bring about savings for electricity ratepayers.

The 2015 Ontario Budget included significant new tax reduction measures as well as two important steps the government will take to encourage further consolidation and encourage savings to ratepayers.

First, the province intends to move forward with the proposed merger of Enersource Corporation, Horizon Utilities, Hydro One Brampton Networks Inc. and PowerStream Holdings Inc. to ensure value for the province and to help catalyze LDC consolidation for the benefit of ratepayers throughout their service territory. This merged utility will be a catalyst for consolidation and an example of the significant savings to ratepayers that emerge from the kind of consolidation it represents.

Second, to further incent consolidation the Province also announced steps to lower the transfer tax on municipal electrical utilities (MEUs) and address other potential tax implications of consolidation, for the period beginning January 1, 2016 and ending December 31, 2018, by:

- Reducing the transfer tax rate from 33 to 22 per cent;
- Exempting MEUs with fewer than 30,000 customers from transfer tax; and
- Exempting capital gains arising under the Payments in Lieu of Taxes (PILs) Deemed Disposition Rules.

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The intent of the transfer tax is to ensure that MEU's contribute their fair share to the pay down of stranded debt and to compensate for the loss of Payments in Lieu (PILs) to the Province if an MEU is sold to a private entity. As such, these time-limited tax changes strike a fair balance between ensuring the pay down of the stranded debt and encouraging consolidation for the benefit of ratepayers. Without this balanced approach, the retirement of the residual stranded could be extended, and the DRC retirement for commercial and industrial users could be affected.

Recommendation #4: Continue to move away from a central procurement model to one that is more flexible and competitive

We continue to explore the possibility of implementing an auction mechanism to procure required electricity capacity resources. We would procure these resources only when needed and at the lowest possible cost.

In support of this work, we continue to work with the Independent Electricity System Operator (IESO) to design a capacity auction in which all resources will be able to compete, including renewable and natural gas-fired generation, demand response and capacity imports.

I would note that contrary to the conclusions in your report, only uncontracted and unregulated resources would be able to compete in a capacity auction. Stakeholders throughout the Ontario electricity sector have participated, and continue to participate, in the design process through IESO's extensive stakeholder engagement process. Such an auction will ensure that we implement sufficient resources to meet future electricity needs in Ontario at the lowest possible cost.

Recommendation #5: Unlock the power of smart meter data by capitalizing on data analytics at a province-wide level

As a result of Ontario's smart grid objectives, smart meter rollout and its centralized Meter Data Management and Repository (MDM/R), Ontario has the opportunity to derive value from access and analytics of electricity data in areas like economic development and innovation, research, system planning, government policy and consumer engagement.

While respecting the key principles of privacy and security, the Ministry is exploring ways to further unlock the potential of the data contained in the MDM/R to empower consumers, advance the government's goals for creating a culture of conservation and enhance operations and efficiencies within the energy industry and related sectors.

To this end a number of initiatives are underway.

The IESO is currently developing a MDM/R Data Mart Facility and has also recently launched the MDM/R Data Access Foundation Project. These initiatives will enhance the current function and operations of the MDM/R and establish privacy and security rules for enabling broader access to data.

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Following on this work, the Ministry together with the Advanced Energy Centre (AEC) and the IESO are looking at the business case for developing a MDM/R Data Access Platform (MDAP) to facilitate broader access and analytics of MDM/R data and other data sets. The Ministry looks forward to receiving a final business case report, which will consider the costs, benefits and implementation considerations for MDAP. The report is expected by the end of summer 2015 and we look forward to realizing the significant innovations that could come through this Platform.

Thank you again for your report. We will continue to take time to review the detailed content and recommendations and look forward to further discussions. Please contact my staff to arrange a session with our Ministry to discuss the details of the report and offer a detailed discussion on the electricity system in Ontario.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Chiarelli". The signature is fluid and cursive, with a large initial "B" and "C".

Bob Chiarelli
Minister

July 16, 2015

Hon. Bob Chiarelli
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Minister Chiarelli,

Thank you for your July 9th letter to the Ontario Chamber of Commerce (OCC) in response to our report *Empowering Ontario: Constraining Costs and Staying Competitive in the Electricity Market*.

The Ontario Chamber of Commerce and its network of 160 local chambers of commerce and boards of trade represent 60,000 businesses throughout the province.

As you know, Ontario businesses are worried about the rising cost of electricity. A survey we conducted earlier this year found that 47 percent of businesses reported that electricity prices are hurting their ability to remain competitive.

As such, *Empowering Ontario* reflects the concerns of Ontario's business community and aims to generate greater awareness of the challenges faced by Ontario businesses as it pertains to the cost of electricity. As you know, the report makes five recommendations that could be adopted by government and energy agencies to curb rising costs. These recommendations are the product of the most rigorous research and consultative process ever undertaken by the Ontario Chamber network, as we consulted with over 100 businesses, energy experts, and government agencies.

As we point out in the report, there are several existing provincial programs that are helping mitigate the rising cost of electricity, including the expansion of the Industrial Conservation Initiative (ICI), which provides lower prices to large electricity consumers that reduce their consumption during peak hours. Additionally, your government extended the Northern Industrial Electricity Rate (NIER) program to beyond March 2016, a move that will help the forestry and mining sectors, in particular, remain competitive.

However, more work remains. As our report notes, ratepayers would benefit from several key reforms, including greater use of data analytics and the introduction of a more flexible procurement model. We also call for a more balanced approach to the Debt Retirement Charge (DRC) by advocating that the burden be shared across residential, small business, and industrial electricity bills. While you have indicated your reluctance to adopt this measure, there are other areas where I am confident we will see eye to eye.

For example, we firmly believe that the electricity system would benefit from greater transparency. As such, our report recommends that government improve the transparency of electricity pricing and system cost drivers. By publishing average electricity rates and disclosing the costs of important investments, government will be held accountable for future decision-making. The lack of transparency in the system has led to reduced customer engagement and confidence in the electricity market. Currently, less than half of Ontarians understand the drivers that contribute to rising electricity bills.

Overcoming the transparency challenge is a vital first step in gaining the trust of business rate-payers and is in keeping with your government's vision for a more open and responsive government.

Clearly, you have demonstrated in your response that business competitiveness is a priority for your Ministry. That is why we would like to offer you the opportunity to provide your perspective to our members in an open forum where they in turn can ask questions of you.

As a start, I am happy to take you up on your offer to arrange a meeting where we can discuss how we might structure future engagement opportunities between you and our members. To discuss further, please contact Karl Baldauf at 416-482-5222 ext 2320 or karlbaldauf@occ.ca.

This issue remains a priority for our organization as it has always factored as a central concern of our members. We look forward to working with your Ministry over the coming months and years.

Sincerely,

A handwritten signature in cursive script that reads "Allan P. O'Dette".

Allan O'Dette
President & CEO
Ontario Chamber of Commerce

Cc.
Ontario Chamber Network
Ontario Chamber of Commerce Energy Advisory Council