

THE VOICE OF NORTHERN BUSINESS



December 14, 2016

The Honourable Glenn Thibeault
Ministry of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, Ontario M7A 2E1

Dear Minister,

RE: Northern Chambers Long-Term Energy Plan Submission

Thank you for the opportunity to provide input into the Long-Term Energy Plan 2017 (LTEP).

We are writing this as a joint northern chambers submission as the Northern Ontario economy faces unique energy challenges. Harsher seasonal climates in the region translate to greater use of power, particularly for the considerable number of industrial natural resource sector firms that are regularly found to be among the highest energy users in the province. We are calling on the LTEP to reflect the realities of doing business in the North.

To that end, we want to offer praise for certain government initiatives, express concerns about issues that discourage business from investing in Northern Ontario, and submit recommendations that will help ensure that Northern Ontario is able to prosper in the years to come.

As representatives of businesses in the North, we are particularly concerned about electricity pricing and transparency. The geographic and economic realities of Northern Ontario mean that electricity and fuel make up a greater portion of a business's expenses than they do elsewhere in Ontario. As a result it is critically important, not only to keep energy prices affordable, but to ensure certainty and predictability in pricing. Transparency and accountability will be a crucial part of this, especially for issues such as cap and trade and the global adjustment. In order to address these concerns, we submit the following recommendations:

- Include economic development among the principles governing the LTEP. Economic development should be the first and over-riding principle.
- Increase transparency and offer greater detail on how the government will achieve targeted GHG reductions, including what support government will offer to businesses so they can remain prosperous while finding innovative solutions to reduce their emissions.
- Clarify the global adjustment (GA) so that ratepayers can better understand their electricity bills. Take steps to reduce the GA as a portion of electricity bills so that businesses are able to see real savings from their conservation efforts.

- Increase transparency and accountability by publishing additional details about cap and trade, including (1) specifying how proceeds from cap and trade will be spent to help transitioning businesses, and (2) publishing regular economic impact assessments on how cap and trade is affecting local businesses and supply chains.
- Publish additional details about the future of electricity pricing in Ontario and the government's plans to prevent further increases and volatility in order to make electricity prices more predictable for business. This should include plans to expedite the elimination of the Debt Retirement Charge (DRC).
- Continue the proposed expansion of eligibility for the Industrial Conservation Initiative (ICI) beyond the one MW threshold to ensure small businesses are able to participate.
- Develop SaveONenergy programs tailored to specific sectors and industries instead of using catch-all approaches. These programs should use an outcomes-based approach rather than criteria-based approaches.
- Expand the IESO's community engagement by prioritizing collaboration with community energy plans (CEPs). The IESO should use this engagement to develop strategies tailored to the economic realities of Northern Ontario.
- Treat the expansion of electricity transmission and natural gas distribution as a public good and not simply the responsibility of the proponent.
- Expand access to natural gas pipelines and improve the electricity transmission grid to ensure communities can develop and businesses can afford to invest in Northern Ontario.
- Ensure decision making on energy supply and conservation takes into consideration the economic, social and environmental impacts. Collaborate with the private sector, local governments and Indigenous communities to analyse and publicly release economic impact assessments outlining the effect of new energy policies on provincial competitiveness, employment and fiscal growth. Ensure that regional economic analysis is taken into consideration. Decisions should be considered in terms of how they will impact the various regions of the Province; tailored approaches, incentives and supports should be provided to those regions adversely impacted by decision-making.
- Bolster investments in the areas of renewable energy, micro-grids and smart technologies for remote and Indigenous communities to ensure a clean and sustainable supply of power to these regions.

Communities and industries in Northern Ontario have identified the generation, transmission and distribution of electricity and fuel as a key economic development tool for the region. Limitations in infrastructure have stalled economic growth and discouraged investment in the North. Because of its breadth, the LTEP will have a dramatic effect on the economy of Northern Ontario. In order to make growth and investment possible, we recommend the LTEP include economic development as a guiding principle; in fact, this should be the first and over-riding principle.

We have heard from key industry leaders and business owners large and small that one of the greatest barriers to investment they face is uncertainty about electricity pricing. Without this kind of assurance, businesses are extremely reluctant to invest in Northern Ontario, where even a slight increase in electricity prices can have a far greater impact than it does elsewhere in Ontario, Canada or the world. Stable, predictable energy prices would go a long way to

encourage domestic and international investors to view opportunities in Northern Ontario and make local investments.

Business owners are particularly concerned about the effect of Ontario's targeted GHG reductions and cap and trade on the price of fuel. Because Ontario's electricity system only produces about seven megatonnes of CO₂ annually, targeted reductions will have to come from the heating and cooling of buildings and from transportation. This will directly impact business, but details are scarce and businesses are uncertain about their future. What is certain is that the impact will be greater in Northern Ontario where fuel expenses are more significant than elsewhere in the province.

A central part of Ontario's emissions reductions regime will be cap and trade. The government says that it will invest "cap and trade proceeds to help [business and industry] remain competitive" and that it will do so in a "transparent and accountable" way. Yet the government has yet to provide details on how these proceeds will be spent or what programs they will fund. Because the impact of cap and trade will be felt more acutely in Northern Ontario, local businesses are especially eager to see details on how these proceeds will be spent. They want to ensure that proceeds are reinvested strategically and transparently so that Northern Ontario can develop a low-carbon economy and not simply subsidize other regions of Ontario. To reassure business, the government should provide specific details on how cap and trade proceeds will be spent, and ensure that programs to support economic transition begin immediately, to coincide with the start of the first compliance period (January 1st, 2017).

Just as they are concerned about increases in the cost of fuel, businesses in Northern Ontario are concerned about the price of electricity. Over the past 10 years, peak electricity prices have increased 86% and off-peak prices have increased 156%, while demand has decreased 9%. At the same time, the Ontario Planning Outlook (OPO) predicts demand to remain unchanged and electricity prices to stabilize. Businesses are justifiably sceptical about these predictions. As Ontario looks towards new economic opportunities such as the Ring of Fire, industries will become even more reliant on energy. High energy costs however can threaten the ability of industries to advance these initiatives while remaining competitive. Current electricity rates provide little incentive for firms to invest and conduct their business activities in the province. Business in Northern Ontario needs assurance that electricity prices will be predictable in the years to come or we risk jeopardizing the investments our economy needs.

Part of this need for assurance will be greater transparency in the composition of the global adjustment (GA). The GA is a complicated and opaque formula unique to Ontario, and most ratepayers do not understand it. We believe that the GA should be something Ontarians can easily understand and discuss; this can come with increased clarity and transparency. Including more line items on energy bills – rather than a single item that buries hidden costs – will go a long way to improving comprehension. The government should also take steps to reduce GA as a portion of electricity bills so that businesses see real savings from their energy conservation efforts.

We recognize that the government has taken several admirable steps to encourage energy efficiency while recognizing the unique characteristics of Northern Ontario. We applaud the

proposed expansion of eligibility for the Industrial Conservation Initiative (ICI), adding as many as one thousand new participants. Expanding this even further would allow small businesses to participate and ensure that everyone is incentivized to conserve energy. We also commend the government for its recognition of regional differences as they apply to the Northern Industrial Electricity Rate program (NIER) program. NIER has been an essential program for our businesses. We encourage the government to continue to analyse how this program can be further expanded to better serve the entire north and to review the current level at which rebates are capped. We are glad to see the extension of the Industrial Accelerator Program (IAP) to 2020 and the support that SaveONenergy programs offer to businesses. The government should prioritize an outcomes-based approach to these conservation programs rather than developing programs tied to rigid criteria. SaveONenergy should emphasize the overall intent of the programs and reward businesses for achieving these broader goals.

While programs such as NIER recognize regional differences, it is important for the government to keep these differences in mind throughout the LTEP. That is why your Ministry's commitment to regional planning is so important. Meeting this commitment, will require more than working with local distribution companies (LDCs) and the scattered number of local advisory committees (LACs) across Ontario. It is also important for IESO to work with the community energy plans (CEPs) that many communities are developing or have already implemented. These local energy planning initiatives are useful tools to help understand local energy needs and to tailor energy policy to the diverse realities across Ontario.

Working with local communities will help identify priorities that have otherwise been overlooked. For example, the economy of Northern Ontario needs investment in electricity transmission lines and natural gas pipelines. Access to electricity and natural gas ensures that communities are able to develop economically and industries can afford to invest in mines, mills and other facilities. Right now, many businesses are discouraged from investing in Northern Ontario because the LTEP's 'cost effectiveness' principle means that proponents of new connections to the grid are responsible for all of the costs associated with the new construction. Such costs are prohibitive and make investment financially unfeasible. In spite of this, however, there is no mention in the LTEP discussion guide of expanding access to natural gas pipelines or of upgrading electricity transmission lines. We recommend that the LTEP not only include plans to expand access to natural gas and improve electricity transmission in Northern Ontario to encourage economic growth, but to treat such expansion and improvement as a public good and a cost to be borne by all ratepayers in Ontario.

We also recommend that the LTEP include a strategy to ensure a reliable, modern and efficient energy supply at rates that enable Ontario businesses to be competitive in a global market. A lack of uniformity exists in terms of reliability standards across different regions of the province. It is important that all regions of Ontario have a reliable and consistent energy supply.

To summarize, business and industry in Northern Ontario face unique challenges and they will need smart government policy to continue to thrive. The LTEP needs to recognize regional differences while striving for transparency and accountability. Providing regular public reporting and greater transparency on the costs associated with business energy bills in Ontario, including annual average electricity prices, the allocation and breakdown of global adjustment fees, and

other costs related to the current energy supply mix, would go a long way in enhancing the transparency of Ontario's energy system. We are hopeful that this LTEP will position Ontario to use energy as a powerful and compelling attraction tool that supports economic development in the province.

Yours truly,



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