

Identify the cost-drivers behind electricity prices

Greater Peterborough Chamber of Commerce

- ❑ Fostering a culture of innovation and smart risk-taking in order to become a productivity leader

Issue

The lack of clarity and full information on the cost drivers behind electricity prices in the province of Ontario is hurting business competitiveness.

Background

In order to understand the true cost of electricity, Ontario businesses must have all the information as to the cost-drivers behind the price on their bills. This is particularly true for the many medium-sized businesses who are not eligible for the Industrial Conservation Initiative (ICI) and not included under the Regulated Price Plan and time-of-use pricing. The Independent Electricity Service Operator (IESO) is predicting industrial electricity prices will rise 13 percent over the next five years and the cost of electricity service will rise to approximately \$20.2 billion by 2018, signaling that a decrease in hydro rates is not expected in the near future.ⁱ

Companies across the province identify electricity costs as a close second to labour in the list of the hard costs of doing business. In the Ontario Chamber of Commerce's report "Empowering Ontario: Constraining Costs and Staying Competitive in the Electricity Market" it's pointed out that 1 in 20 businesses in the province expect to close their doors in the next five years due to rising electricity prices. In addition, 38 percent will see their bottom line shrink, with the cost of electricity delaying or canceling investment in the years to come.ⁱⁱ

Late in 2015, the provincial auditor reported that the price of Liberal government decisions around electricity cost Ontarians \$37 billion. However, despite disputing the numbers in the Auditor General's report, the provincial government has not released a formal cost breakdown of its own.

Currently hydro bills are broken down between distribution and generation. Included in the distribution cost is the Global Adjustment (GA) which is defined by the Ministry of Energy as the regulatory mechanism that makes up the difference between contracted costs and wholesale revenues. How this calculation is passed down to business is also problematic as it is a flat rate that is applied to consumption, which fluctuates from month-to-month.ⁱⁱⁱ

The IESO and the provincial local distribution companies (LDC's) have put a significant amount of time and money into promoting and encouraging businesses to participate in conservation programs, however, saving on the consumption side is only one part of the

commodity price. In April of 2015, the average hourly price for electricity was 1.65 cents per kWh, while the GA was 9.56 cents per kWh.^{iv}

There are many factors that make up the distribution cost from, but not limited to, labour, contracts with local distribution companies, GA, FIT contracts and investment decisions. On the generation side, the IESO currently provides how much energy is generated by nuclear, gas, water, wind and solar, but we do not know for example how the cost of the FIT programs is factored into the price of generating the electricity from those sources.

Along with a lack of clarity in the breakdown of electricity bills, Ontario businesses have yet to see an apples-to-apples jurisdictional comparison of electricity prices from the provincial government. Such a comparison will allow for better understanding of the position of Ontario to its surrounding neighbours and competitors for business investment.

While the recommendations suggested below will not necessarily serve to see an immediate decrease in electricity rates, they will provide a better understanding of the true cost of electricity, which could lead to programs that are better designed to mitigate constant price increases.

RECOMMENDATIONS:

The Ontario Chamber of Commerce recommends that the Ontario government:

1. Make public the full breakdown of the cost-drivers behind electricity distribution and generation and how investment decisions since 2003 have impacted electricity cost.
 2. Complete and make public a jurisdictional comparison that can be used to better understand how Ontario stacks up to its neighbours and competitors for business investment.
- Entail a small cost to government (less than \$10M)

ⁱ OCC Empowering Ontario 2015 pg 5

ⁱⁱ OCC pre-budget survey, January/February 2014, n=987

ⁱⁱⁱ Ibid

^{iv} Ibid.