

August 26, 2005

Jan Carr  
Vice Chair  
Ontario Power Authority  
2300 Yonge St.  
PO Box 2319  
Toronto, ON M4P 1E4

RE: Written Submission on Electricity Supply Mix in Ontario

Dear Mr. Carr,

On behalf of Canadian Manufacturers & Exporters (CME), I am pleased to provide input that will help the OPA in their recommendations to government on the appropriate supply mix for Ontario. Although the supply mix is only one component of a complex energy system in Ontario, it is absolutely critical to the vitality of the manufacturing sector in Ontario and society as a whole.

CME is Canada's leading business network. Our members represent 75 percent of manufactured output in the Province (and the country) and 90 percent of all exports. CME provides advocacy and education services for members on timely and relevant issues. In response to a growing concern for energy issues in general, CME formed the Standing Committee on Energy Policy, which has contributed to the formulation of this document.

Manufacturing is important to the province of Ontario. It is the single largest sector of the economy (17.5 percent of GDP), employing over 1,000,000 people directly in this province. In Ontario, wages in the manufacturing sector are 25 percent above the national average and, for every \$1 invested in manufacturing; there is an additional \$3.05 in economic activity. It is therefore necessary that supply decisions be made in the context of an industrial strategy for Ontario.

Electricity is significant to manufacturing. Electricity is the primary source of energy for the manufacturing sector.<sup>1</sup> A powerful example of the importance of electricity to the economy was the Blackout of August 2003, which caused a \$10 billion decline in Canadian manufacturing shipments.

Furthermore, according to CME's 2005 *Management Issues Survey*, one quarter of respondents cited reliability of energy supply as a constraint on future investment in Canada. CME's objective is to reduce the number of respondents concerned with energy supply reliability to zero by 2020. Fuel mix will play a critical role in achieving this objective.

Electricity prices have escalated dramatically recently. From the first quarter of 2000 to the first quarter of 2005, electricity prices rose by 18.5 percent while selling prices have

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<sup>1</sup> <http://www40.statcan.ca/101/cst01/prim74.htm?sdi=energy>, 2004

increased by only 4.2 percent over the same period. Recent government policy decisions including the decision to phase out all coal-fired generation and RFP contracts will virtually guarantee higher prices for electricity. Manufacturers recognize that electricity prices are likely to go up as a result of increasing fuel costs globally; increasing demand; increasing concern for health impacts and the acceptance of a reasonable rate of return for generators.

However, Ontario must not become an island of higher priced electricity relative to other jurisdictions that are competing for investment. Ontario electricity prices are already uncompetitive, resulting in some industries, including chemical and pulp and paper industries, leaving the province. The implications are particularly severe in Northern Ontario where communities rely entirely on mining and pulp and paper industries to survive. Although these industries are being hit severely, all industries in Ontario are affected by escalating prices and it is only a matter of pennies per kw/h before more industries close Ontario facilities. It is therefore critical that the cost of supply options be considered in relation to other jurisdictions.

It is under these circumstances that CME has framed the response to the OPA's request for input.

#### **OPA Issue areas for supply mix:**

##### ***Appropriate Analytical Planning Approaches:***

The most important factor in analytical planning for the supply mix must be cost optimization. The OPA should be concerned with considering the socioeconomic implications of various supply options. Cost analysis has been seriously lacking in recent decisions including the 2500 MW RFP, the renewables RFP and the decision to phase out coal fired generation in the province. It is imperative that any analytical models include consideration of economic and social implications and at the very least, predicted costs associated with each supply option.

Implicit in cost optimization is cost containment. Industry supports paying the "true cost" for power, provided that the costs are transparent and reasonable; and that measures are in place to control costs. CME believes that cost containment must be within the scope of the fuel mix recommendations. In comparing fuel options, the ability to contain costs should be factored for both proven and new technologies. Stranded debt associated with cost over-runs at Ontario Hydro is seriously impeding the success of the present electricity system in Ontario.

CME recommends that the OPA use a reliable and independent third party resource for cost information like; Canadian Energy Research Institute (CERI) or the National Energy Board. The Centre for Spatial Economics has released a report on the economic impacts of various supply options that should be considered.

### ***Conservation and Demand Management***

If the OPA is considering recommending an RFP for Conservation and Demand response, the RFP should avoid being prescriptive and give candidates time to develop proposals that meet the government's objectives and any rules for each option. CME would be pleased to assist the OPA further in creating an effective RFP CDM projects.

It is critical that Demand Management and Conservation programs recognize the investment and contribution that industry has already made in these areas. According to the Canadian Industry Program for Energy Conservation (CIPEC), manufacturers have reduced overall energy intensity by 8.1 percent since 1990. Therefore, conservation programs in general must avoid cross-subsidization. This would send negative signals to early adopters that they would have to pay for electricity consumers that have not been proactive regarding conservation.

### ***Assessment of Different Supply Technologies***

CME supports the development and implementation of renewable technologies provided that they are cost competitive and reliable. A diverse supply of electricity generating options is not only favourable, it is necessary. All sources that are currently available will need to be further developed in order to meet projected demand. Rather than picking sources of fuel on an ideological basis, the government should look to set criteria for generation based on desirable health, social and environmental outcomes. This process will yield the optimal supply options for consumers.

For example, CME believes strongly that coal has been dismissed as a fuel source without adequate consideration of the potential for environmental and health improvements and the advantages of coal fired generation from a cost standpoint.

### ***Appropriate Methods to Assess the Impact on the Natural Environment of Supply Options:***

The appropriate method for determining environmental impacts of various supply option would be to use existing, peer reviewed data on various options. It is critical that the data be transparent and reviewed by an independent third party. From that data, the OPA, in conjunction with the Ministry of Environment, should extract the types of emissions that are deemed to be harmful, and set standards based on reducing those harmful emissions. In the final assessment of the sustainability of various supply options, the environmental impacts would be considered equally in conjunction with social and economic impacts.

### ***Conclusions:***

OPA's assessment of the fuel mix cannot be made in a vacuum. Ontario is and will continue to be an industrial economy that allows Ontarians to enjoy a quality of life that is second to none.

Ontario needs an electricity system that supports a growing and prosperous manufacturing sector. In order to achieve this type of continued prosperity, the fuel mix over the next 20 years will be critical. Ontario society has thrived on competitively priced electricity for the past 100 years. There is no reason why Ontario can't maintain that competitive advantage for the future by making the right choices for the fuel mix.

To achieve the most cost effective and environmentally sustainable electricity system in North America, the OPA will have to recommend generating solutions that meet environmental standards and offer the best price and reliability for consumers. CME believes strongly that the correct fuel mix will yield lower cost solutions without compromising the integrity of our natural environment.

Sincerely,

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