

August 12, 2004

Jeff Leal, M.P.P.
Chair
Standing Committee on Social Policy
Room 1405, Whitney Block
Queen's Park,
Toronto ON M7A 1A2

RE: *Electricity Restructuring Act 2004 (Bill 100)* and the Future of Energy In Ontario

Canadian Manufacturers and Exporters (CME) appreciates the opportunity to provide comments on the *Electricity Restructuring, Act 2004 (Bill 100)* and our perspectives on energy in Ontario. CME is Canada's leading business association. With over 2000 corporate members across Canada, our members are responsible for 75 percent of all manufactured output and 90 percent of all exports.

CME is currently undertaking a major initiative entitled "Manufacturing 20/20: the future of Manufacturing in Canada", in which we are traveling across Ontario and Canada, speaking with manufacturers to determine action necessary to ensure a vibrant manufacturing sector both now and in the future. The consultations will result in a report that will be presented to all levels of government in October.

From these consultations, we have learned that electricity is of primary importance to manufacturers in Ontario. They have had to absorb an average rate increase of 32.4 percent from the first quarter of 2000 to the fourth quarter of 2003. Considering selling prices have declined 6 percent over the same period, these figures are cause for action.

While we support the intent of the Provincial Government to address challenges associated with the open market, we have serious concerns about the content of the legislation and the implications for manufacturers and business in general. If these concerns are not addressed, Ontarians will be faced with the loss of jobs and future investment to other jurisdictions where environmental and health concerns are not held to the same standards of excellence. It is important that we find electricity solutions that are environmentally and economically sustainable. We believe that solutions exist that will benefit the environment and foster livelihoods in Ontario.

CMEs position is that the legislation should create an environment that will support a diverse, open and cost competitive energy market now and in the future.

CME members have developed a set of key messages and principles to help the government in developing this legislation further.

The Importance of Manufacturing in Ontario:

- 51 percent of Canada's Manufactured Output
- Manufacturing directly accounts for 20 percent of Ontario's GDP
- Every \$1 of manufactured output in Ontario generates \$3.19 in total economic activity – the highest multiplier of any sector
- 1,091,600 Ontarians are employed in manufacturing
- 17.5% of Ontario employment is in manufacturing
- Wage levels are 25 percent above national average
- 76 percent of Ontario's Goods & Services Exports (\$180 billion)

Cost Squeeze (% change from Q1 2000 to Q4 2003)

- | | |
|----------------------------|---------------|
| ▪ Selling Price | -6.2% |
| ▪ Wage Rates | +11.2% |
| ▪ Raw Materials | +22.4% |
| ▪ Payroll Taxes & Benefits | +18.5% |
| ▪ Electricity | +32.4% |
| ▪ Industrial Fuel | +98.6% |

Principles:

Competitive Pricing

Canadian manufacturers simply cannot afford further energy price increases. Canadian manufacturers are currently dealing with an average of six minutes of after tax profitability on an eight-hour work schedule. This means that there is very little margin for energy price escalation. There is also a need to recognize that energy costs are a critical determinant of investment and production decisions in North America. Energy costs have a direct impact on cash flow, which correlates to investment in the province of Ontario. The government needs to establish competitive benchmark prices with other jurisdictions such as the Ohio Valley and the southern United States. We are concerned that long term RFQ's essentially guarantee a higher price for consumers. Ontario's uncompetitive energy pricing will result in jobs leaving Ontario and affect future job growth in Ontario.

Furthermore, we are concerned with the wording in the proposed legislation that limits access to the Annual Rate Plan to low volume consumers. This type of discrimination may not affect large companies that can leverage their size to obtain better contract prices. However, medium and smaller companies may not be able to access these competitive prices and suffer for it. This is especially critical for CME as the majority of our members are small and medium sized enterprises (SMEs). Equitable pricing is even more critical to the economic wellbeing of Ontario as SMEs are proportionately more numerous in Ontario than in the United States. Therefore, growth and development of SMEs is fundamentally important to our standard of living relative to the United States. Consumer designations should be removed or modified to account for small and medium sized enterprises.

Supply Certainty

This is an umbrella principle that will likely resolve many of the other issues. The legislation does not adequately deal with long-term supply of electricity. There must be certainty that long-term supply challenges will be met. There must be a commitment to expedite large-scale supply development. Otherwise, Ontario may be forced to purchase power from the U.S. (to avoid blackouts and brown outs) where the generation methods may or may not meet Ontario's environmental and health standards. Furthermore, large-scale supply development/ refurbishment will create jobs in the province of Ontario and stimulate economic development.

Implicit in supply certainty is supply **reliability**. Improving the transmission grid is a necessary requisite for long term supply solutions. Plant shut downs due to transmission problems are becoming more frequent in many areas. By insuring a diverse supply mix, geared towards current and future demand, manufacturing, employment and investment will continue to flourish.

Emissions based standards

Rather than rule out a particular supply source for health or environmental reasons, CME recommends that the government consider setting reasonable emissions standards, to ensure a competitive environment, and let the market determine how to achieve the targets cost effectively.

Determining or limiting the source of supply of electricity will result in higher energy costs. The Ministry must recognize that burdening large consumers with high-energy costs will cause investment and jobs to leave

the province. Many of these Jobs will go to the southern United States and the Ohio Valley where coal continues to be the energy of choice for large-scale generation. Therefore, the resulting impact on the environment & health in Ontario could be a net negative. Setting emissions based standards that are realistic and attainable, could be a lower cost solution that will allow the provincial government to maintain oversight of the environment and health concerns of the province and continue to provide jobs for all Ontarians. Indigenous technologies exist that could achieve the highest standards of environmental health and safety, while mitigating the economic impact of certain policy decisions.

Process Certainty

As we understand it, the Market Power Mitigation Agreement (MPMA) rebate will no longer be relevant under the new “mixed market” or “hybrid” system. This is due to the fact that the MPMA rate was based on a consistent rate market (as opposed to the new floating rate). However, the MPMA is believed to be based on the “true cost” of generation from the existing large-scale OPG assets (heritage assets). Therefore, the “regulated” assets under the new market system should reflect the MPMA rate. Failure to do so would result in a loss of confidence in the electricity market and could affect future investment in the broader market.

The Ministry has stated that the first regulated rate would be set by the Ministry of Energy. We feel strongly that this rate setting process must be transparent and should involve input from important stakeholders now and in the future. The initial rate will require detailed scrutiny in order to maintain a competitive future for energy.

Process Clarity

The legislation must provide a more detailed understanding of how the new system will function. It is important that this information be detailed in the legislation as opposed to being left for the regulations. This is critical in order for stakeholders to provide input that is vital to the success of the new system. Keep in mind that the processes need to be streamlined to maintain a smoothly functioning economy (there must be clarity in who does what).

Avoid Cross Subsidization

Given the aforementioned challenges, industrial users cannot bare the burden of financing this new bureaucracy without consequences. The total cost of power in Ontario, including fees and charges to pay for new bureaucracy and conservation measures may be considerable.

Financing for the institution (s) created by Bill 100 must be reasonable, equitable and transparent in the legislation.

Expediency

The Government needs to move quickly to deal with supply concerns (beyond renewable RFPs) without compromising electricity prices.

Transparency

There must be transparency in the development of the legislation and the resulting institutions. There also needs to be transparency in the decision making process for all supply projects, particularly large-scale projects. These decisions will be critical to all Ontarians and will have a critical impact on all manufacturers in the province.

Governance and Accountability

In order to renew investor confidence, it is vital that effective accountability and governance mechanisms be installed in both new and existing institutions (i.e. OPA, OEB, IMO, OPG, etc.). CME has strong concerns about the governance of the OPA under the current reading of the OPA. We need to ensure that the legislation will not be open for political manipulation in the future. In order to sustain the OPA, the board of directors must be independent from the government and accountable. Major stakeholders should have input into the process of selecting the Board of Directors. It is also critical that the board members have adequate knowledge of the electricity sector to make informed decisions.

Orderly Transition

New legislation should allow for gradual integration/change with clear timelines and objectives. This will help to avoid market volatility and help to restore producer/investor confidence in the Province.

Remove Disincentives Against Increasing Generation Capacity of Industrial Power Generation

CME views Bill 100 as recognizing this important point and we commend the government on this significant and necessary new direction. More clarity in the legislation is necessary for the market to generate the necessary investment to begin developing generation projects.

Demand Side Management

Demand Side Management (DSM) is an important responsibility that is to be vested with Local Distribution Centres (LDCs) under Bill 100. As there are over 90 LDCs, improved governance and reconciliation will be

necessary to ensure that public funds will be allocated appropriately. Measures need to be included in the legislation, beyond directives from the Minister, that will guarantee appropriate and effective DSM programs are developed and maintained.

If DSM is implemented for manufacturing, programs should be self-funded and self-directed. Many manufacturers have already diligently put in place best practice energy initiatives. It would be wrong to penalize companies that have been proactive on conservation.

We encourage the provincial government to recognize the value and importance of manufacturing to the quality of life in Ontario and to take actions necessary to ensure a vibrant manufacturing sector for now and into the future.

CME would be pleased to continue to provide input throughout the development of this important and timely legislation.

Yours very truly,

A handwritten signature in black ink, appearing to read "Ian Howcroft". The signature is fluid and cursive, with the first name "Ian" being more prominent.

Ian T. Howcroft
Vice President, Ontario Division
Canadian Manufacturers & Exporters