ONTARIO SOCIETY OF PROFESSIONAL ENGINEERS

November 19, 2019

Hon. Greg Rickford
Minister of Energy, Northern Development and Mines
Office of the Minister
77 Grenville Street
10th Floor

The Ontario Society of Professional Engineers (OSPE) is the voice of the engineering profession in Ontario. We represent the entire engineering community, including engineers, engineering professionals and graduates. As an organization, we advance the professional and economic interests of our members, many of whom work in the environmental, energy and transportation sectors. OSPE and its members want to help our provincial and federal governments achieve their environmental goals at an affordable cost.

OSPE is glad the Ministry engaged in consultations regarding Ontario's industry electricity pricing framework and its program design.

However, OSPE wanted to highlight some of its ongoing concerns regarding Ontario's industrial and consumer electricity pricing framework.

1. Today, many subsidies are included in Ontario electricity rates. These subsidies distort the natural price of electricity which would result from the most effective production technologies that match consumer demand profiles. Subsidies to some producers (for publicly favoured technologies) and to some consumers (for rate relief and conservation) are presently included in Ontario's electricity rates. These subsidies should be moved to the tax base to eliminate electricity price distortions so our domestic trade-exposed companies, regardless of size, are not placed at a competitive disadvantage within our USMCA, TPP or CETA trade zones.

2. In high-emission electricity systems, variable cost (mainly fuel) forms the predominant cost for electricity and can be represented effectively in the consumer's energy consumption or kWh consumption rate. In low-emission electricity systems like Ontario's, fixed cost is the predominant cost for electricity and can be represented effectively in the individual consumer's peak power demand or peak kW demand rate. **Consumers could be billed more fairly for electricity if they paid for their peak power demand and energy consumption separately, to the extent they used each quantity.** This fundamental change in electricity pricing policy is critical if we want to achieve decarbonization goals for the whole economy without the need for punitively high carbon prices that are not likely to be supported by the public.

3. The Global Adjustment charge primarily reflects the cost of installed capacity which is directly proportional to the peak power demand. Consequently, the global adjustment should have been charged based on peak power demand **NOT** energy consumption. This unfortunate billing arrangement has led to a host of problems and ill-advised subsequent energy policies. The Industrial Conservation Initiative (ICI) program for Class A large industrials is a good example of how **NOT** to fix the problem with the Global Adjustment. The ICI program was intended to eliminate over-billing for Class A consumers. However, the rules were overly generous and instead resulted in under-billing of Class A consumers who were able to take maximum advantage of those ICI rules. The ICI program now transfers legitimate Class A consumer costs illegitimately to Class B consumers. Many Class B electricity consumers are trade exposed and cannot pass those additional electricity costs to their business customers.

4. Our current conservation programs are too focused on saving energy (the correct approach in a high emission electricity system) rather than reducing peak power demand (the correct approach in a low emission electricity system like Ontario's).

5. Most electricity consumers want lower electricity bills but have no idea of what a fair price for electricity should be. Most electricity consumers do not understand the difference between power demand (that heavily impacts costs in a low emission electricity system) with energy consumption (that heavily impacts costs in a high emission electricity system). Ontario has transitioned from a high emission system to a low emission system. Consumers have not been educated on what that means with respect to their total monthly bill and how their consumption patterns affect electricity system costs and their individual monthly bill. Currently, energy used during peak demand hours is under-charged and energy used during off-peak hours is over-charged. **This encourages consumer behaviours that cause electricity system costs to rise for everyone.** Electric car owners are the biggest losers with the current rate structure. They typically charge their cars at night when there is surplus low emission electricity available, often at less than 1 cent/kWh, but they are forced to pay almost 9 cents/kWh for any incremental amount of electricity they use. That is not a responsible energy policy in light of our provincial and national goal to reduce carbon emissions in the transportation sector.

6. **Billing electricity at its actual underlying cost for both installed capacity use and energy consumption will ensure that the retail rate plans will automatically incentivize the correct conservation, load shifting and load levelling behaviour to produce efficient operation of the power system**. OSPE has recommended that any major changes to retail electricity price plans and rates be made voluntary. Consumers that are willing to invest in energy management systems that reduce the cost of operating the electrical power system will receive the benefits of those investments. Eventually all consumers will gradually migrate to the new voluntary price plans as they see their neighbours benefit financially from their investments in energy management equipment. In the long run the overall electricity system will become more cost effective for everyone.

Once more, OSPE commends the government's initiative in addressing Ontario's electricity system. At this point, OSPE would also like the opportunity to meet with Minister Greg Rickford to discuss the ways in which the organization, and engineers can help move this file forward.

For questions or comments, please contact Stuart Atkinson, Lead, Policy and Government Relations at satkinson@ospe.on.ca.

Sincerely,

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