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Our File # 339583-000210

May 27, 2016

By electronic filing

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: Comments of Canadian Manufacturers and Exporters
Rate Design for Commercial and Industrial Electricity Consumers**

Board File #: EB-2015-0043

We are writing on behalf of Canadian Manufacturers & Exporters (“CME”) in response to the Staff Discussion Paper circulated on March 31, 2016 (the “**Discussion Paper**”), which considers alternative distribution rate design options for commercial and industrial rate classes.

As described in the Discussion Paper, the OEB is engaged in a process designed to increase the link between how customers use the electricity distribution system and how they pay for it. After extensive consultation with stakeholders, the first phase of this process produced a direction from the OEB that all costs for residential distribution are to be collected through a fixed charge. This policy is intended to emphasize simplicity and increase customer understanding of the fixed nature of the distribution service.

The next phase of the process is directed at commercial and industrial electricity customers, whose usage accounts for nearly two thirds of the load and 38% of the distribution revenue. A stated objective of the OEB is to apply “innovative rate designs that incentivize [these] customers and influence their behaviour” in order to ensure fairness in economic outcomes for the customer and distributors while also ensuring that the electricity system continues to meet the needs of all participants.

CME’s membership includes over 1,400 Ontario based companies which will all be affected by a change in rate design applicable to commercial and industrial classes. Of this number, a significant contingent is already struggling to stay competitive in the face of escalating energy costs. These are energy intensive businesses whose continued operation in Ontario depends on their ability to compete with counterparts in other jurisdictions where energy costs are lower.

Given the foregoing, CME is vitally concerned with any proposed change in rate design for commercial and industrial users and has been working to engage its members in a review of the Discussion Paper and the various rate design options evaluated therein. In this regard, CME acknowledges the efforts of OEB

Staff who actively sought to connect with CME and coordinated question and answer sessions for CME's members. The feedback which CME has received from its members can be summarized as follows:

1. As illustrated in the Analysis of Rate Design Options contained in Appendix "A" to the Discussion Paper, each option produces "winners and losers", or customers who will face a bill increase as opposed to a bill decrease as a result of the application of a particular option. For example, in the General Service over 50 kW class, each rate design option considered produces a significant percentage of customers who will experience a bill increase, ranging from 42% experiencing a bill increase with Option 6a (Peak and Off-peak) up to 62% with Option 5 (Minimum Bill). In many cases, the bill increase appears to be material (upwards of 10%).
2. Based on the material provided to date, CME's members have not been able to ascertain how their respective businesses will be affected by each option, whether they will be amongst the number of customers whose bills will increase and if so by how much. It would therefore be of great assistance to CME's members if a tool or model could be developed which would allow each customer to understand how their bill will be impacted by each of the proposed options.
3. One of the key objectives expressed in the Discussion Paper is to address distribution peaks and costs to the distribution system which are driven by such peaks. In response, the majority of the rate design options considered by OEB staff apply a temporal element and create incentives to reduce electricity usage during peak periods. CME is concerned that these rate designs may not appropriately recognize the benefit to the distribution system provided by customers who use energy at a steady, predictable rate. Such customers are generally not heat-sensitive and therefore, their usage does not increase during peak periods. While these customers are not able to shift from peak to off-peak times, they also are not driving system expansion and are providing stability to the grid. This type of customer is unable to take advantage of the incentives provided for shifting its usage and may be penalized for its usage during peak periods, notwithstanding the benefits that it may be providing to the system. We urge Board Staff to consider the appropriateness of offering lower rates to such a customer.

CME's members acknowledge that each customer should pay its fair share of the cost of operating and maintaining the distribution system; however, many of these members are also Ontario businesses who are reaching the breaking point in the face of electricity rates which are significantly higher than electricity rates available to their competitors in competing jurisdictions. These firms may have no alternative but to consider leaving Ontario in search of more competitive rates for industrial users, with disastrous results for system demand and all electricity users in the province.

Last August, the Ontario Chamber of Commerce published a report entitled "Empowering Ontario: Constraining Costs and Staying Competitive in the Electricity Market". The Report highlighted that the price of electricity in Ontario is the highest in North America and is expected to increase 13% over the next five years. The Report also emphasized the connection between the price of electricity and business' ability to grow. A related survey conducted by the Ontario Chamber of Commerce showed that the rising cost of electricity in Ontario is the reason that between 2015-2020:

- 1 in 20 businesses in Ontario expect to close;
- 38% will see their profits decrease; and
- Businesses expect to delay or cancel investment plans.

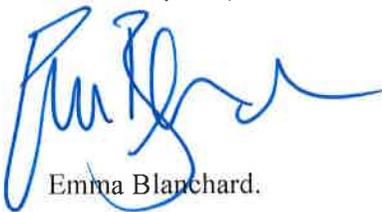
Association of Major Power Consumers of Ontario (AMPCO) raised similar concerns in its “Power Market Outlook” which was issued in May, 2015.

In this context, CME urges the OEB to focus its attention on overall affordability, from a “total bill” perspective, for the manufacturing and industrial sector by developing an action plan for manufacturing/industrial electricity rates which would examine innovative approaches to rate setting for these customers, such as load attraction and expansion rates and load retention rates.

CME notes that load retention rates are used in jurisdictions outside of Ontario to incent customers to continue taking service from the utility when they would otherwise be prepared to leave the system for economic reasons. In the current economic climate, manufacturing and industrial customers require such assistance; however, there is also a benefit to utilities and other customers of the system because the manufacturing and industrial customers provide both a significant revenue stream and a consistent demand that warrants protection.

Load retention rates are just one manner in which the Board could assist manufacturing and industrial customers; however, there are likely many other alternatives which warrant consideration. CME therefore urges the OEB to use this rate design consultative as an opportunity to explore these alternatives and apply them to produce more competitive rates for manufacturing and industrial customers. To the extent that the OEB agrees that this warrants further consideration, CME would welcome the opportunity to cooperate with Board Staff, utilities and other intervenors to develop the proposed action plan.

Yours very truly



Emma Blanchard.

c. All Interested Parties EB-2015-0043
Paul Clipsham and Ian Shaw

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