

OEB Staff Research Paper

*Examination of Alternative Price Designs for the Recovery of Global Adjustment
Costs from Class B Consumers in Ontario*

OEB File No. EB-2016-0201

Comments of the Quinte Manufacturers Association

General

The Quinte Manufacturers Association (“QMA” or “Association”) supports the efforts of the Ontario Energy Board in its electricity rate design reform work for Class B commercial customers as part of redesign of the *Regulated Price Plan Roadmap*. The QMA is appreciative of the opportunity to have reviewed the Board staff research paper *Examination of Alternative Price Designs for the Recovery of Global Adjustment costs from Class B Consumers in Ontario*. The Association recognizes that the exploration of the pricing design prototypes requires much more study and testing to match a design(s) with customer preferences. The allocation and recovery of Global Adjustment (“GA”) costs continues to be a matter of significant concern to the Association’s member businesses. Along with labour, the total price for electricity that our manufacturers pay is a significant component of the input cost for each unit of production.

The manufacturing sector in the Bay of Quinte region includes a wide range of diverse businesses that have power demand and consumption patterns that are as diverse as the businesses themselves. The QMA believes it is essential, when developing pricing alternatives, to have a real world understanding of how manufacturers in this particular geographic location use the electricity system and pay for it. Striving for the lowest total cost of electricity used in manufacturing is a critical business factor for remaining competitive. Many companies have already taken advantage of conservation initiatives to reduce energy costs. However, the additional cost burden of the Global Adjustment has become a driving force for manufacturers to rethink how power is used in their facilities and investigate alternative power management and control technologies and supply options.

The QMA acknowledges the OEB objective to use innovative rate designs to incentivize customers and influence their electricity use behaviour. This objective, overall, is likely to be more successful with customers with uniform power requirements than with manufacturers.

QMA welcomes this opportunity to contribute to the initial alternative price design dialogue and provide the views of manufacturers in the Quinte region. On a go-forward basis, the Association strongly encourages further consultation with our manufacturers to assist with the design of fair cost recovery mechanisms.

QMA Comments

The Bay of Quinte region which includes the cities of Belleville and Quinte West and the surrounding area is a manufacturing hub for a wide range of complementary industries. The manufacturing sectors include: automotive, wire and cable, food processing, packaging, plastics, pulp and paper, warehousing and transportation.¹ These industries employ directly and indirectly more than 11,000 people in the region and actively compete in world markets. The financial impact of the Global Adjustment on manufacturing is considered by members to be a significant and detrimental barrier to business attraction and expansion in the Bay of Quinte region.

The QMA is of the view that OEB's electricity pricing design work is particularly important for Class B customers and provides the opportunity to improve the way GA costs are recovered. The Association understands that pricing design has to reflect the costs of electrical system in Ontario, but also that a fair and reasonable balance in the pricing outcome must be reflective of how the manufacturing sector functions in order to be competitive.

There is not always a direct relationship between the price of power at a certain time of day and the ability of manufacturers to adjust processes, procedures and machines to react in lockstep to load shift or curtail production to help minimize GA charges where possible. Some manufacturers can make such adjustments, but many others can not. This partially explains the poor uptake in the manufacturing sector in load shifting based on time-of-use pricing. Unlike the residential customer group which can be viewed as generally uniform in their use and consumption of electricity throughout the day, manufacturers respond directly to customer demands and schedules irrespective of the price of power. Real time pricing (measured against forward pricing) is helpful to manufacturers depending on their ability to adjust processes (e.g., pause, delay, shift or abort) and relies on the use of advanced power control systems to manage and respond to energy pricing and pricing behaviour.

¹ A sample of the major manufacturing, processing and warehousing businesses that are located in the Quinte region include: Magna Autosystems, Kelloggs, Vantage Foods, Trenton Cold Storage, Sigma Stretch Film, Norampac, Proctor & Gamble, Parmalat, Kennametal, McKesson, Hanon Systems.

Manufacturers pay their fair share of the cost of the electricity system but there is also the objective to find suitable alternatives that will drive the lowest total cost in electricity consumption. Concerns remain that the regulators do not have a good understanding how advanced power technologies are being deployed and rapidly changing manufacturing processes to allow companies to remain competitive. There is an inherent difference in how our manufacturers, who are subject to competitive pressures in the market, must react quickly by adjusting manufacturing processes, making cost adjustments and evaluating these against input costs including electricity prices see the electricity market and how the market is regulated in Ontario. Working inside the electricity market is clearly different than regulating it. From a business perspective it is worrisome that the Ontario electricity market is seen to be confusing from a broad policy perspective, cumbersome to properly operate in; and slow to adopt advanced power technologies that are considered necessary by manufacturers to promote competitive advantage over external competitors.²

As noted in the Board staff research paper, the uptake in load shifting, for example, for Class B customers has not been very good. This is not surprising because much of the manufacturing and processing operates on the customer's timetable and not the power pricing schedule. The power pricing schedule for the Ontario electricity system does not necessarily sync with customer demands/schedules for product and the manufacturers ability to adjust production schedules accordingly to save on electricity and related GA costs.

The QMA believes its manufacturers would be better-off if electricity pricing and the recovery of GA costs was focused on the Quinte region (as a geographical service area, for example) rather than on an Ontario-wide basis. Proper pricing design should encourage manufacturers to reduce energy demand, encourage efficiency and lower the GA cost burden. Regional or "locational" pricing would better reflect the costs of electricity demand and consumption based on location and production times of the manufacturers and other consumers in the Quinte region. In addition, this would help drive private investment in distributed generation and distributed energy resources. None of which should be considered a "defection" from the grid, but rather an opportunity for manufacturers, if they choose, to better manage energy risk and control

² For example, efforts to encourage and promote in-plant energy conservation on one hand, which is clearly considered a "good thing", are seen to run counter to the promotion of unnecessary high capital cost new grid-based "green" generation while discouraging the rapid deployment of localized distributed generation and distributed energy resources for manufacturers.

on-site power requirements for competitive purposes and relieve any unnecessary congestion on existing electrical system infrastructure.

Class B customers are not a homogenous group and it may be useful to establish subgroups of like manufacturers on a locational basis, for example, that would be able to select from a menu of price designs that would be the “best fit” for the manufacturer and its operations and allow it to change the price design it uses as its business changes.

As noted earlier, QMA manufacturers compete for business internationally, regionally and locally and have a reputation as high performing world-class manufacturing facilities. Energy policy uncertainty and unpredictable changes in electricity costs and cost recovery can have harmful impact on manufacturing revenue streams and business expansion. The ongoing challenges of the cost of power in Ontario, with the GA as a primary concern, is recognized by neighbouring jurisdictions in the United States in their efforts to attract member manufacturers to relocate south of the border with better electricity pricing. This point is made to stress the seriousness of the matter to our members as it relates to sustaining local employment, tax support and business expansion and viability. The QMA recognizes that these and other related local issues are not within the direct purview of the OEB, nor the Board staff research paper, but it is important that the pricing designs for the recovery of GA costs recognize the need to ensure that the GA costs manufacturers attract are fair, justified and defensible. Continued dialogue with our manufacturers is essential in developing acceptable GA pricing options.

Response to Board Staff Questions from Webcast

The QMA has reviewed and considered each of the questions posed to the stakeholders during the recent webcast on the alternative price design work presented by Board staff as part of its stakeholder engagement efforts in considering alternative price designs for GA recovery. Response to the questions is from a manufacturing ratepayer perspective which the Association hopes will be of assistance to Board staff in this work and will lead to further consultation and input from the QMA.

Staff Questions to Stakeholders

1. Are there other sources of economic value to be considered in evaluating such pricing prototypes?

From a manufacturer’s perspective, the economic “value” to be considered in GA pricing design needs to be linked to the overall economic value manufacturers routinely consider in their businesses – generally: the economic influence of suppliers; purchasers; competitors; regulatory and other barriers; and, competition. In addition, the local distribution utility’s customer class make-up (e.g., is it more residential

than commercial; or more industrial than commercial, or a more discrete mix of consumers?) may impact the economic value of a pricing arrangement depending on geographic location within the provincial electrical system.

2. Are there any other prototypes for Class B GA pricing design (significantly different from those introduced in the paper) that should be examined?

The QMA is not aware of any other prototypes at this time. However, for manufacturers, there should be flexibility in a GA pricing structure that allows the customer to select the pricing option it prefers to follow rather than being told which one will be applied to it. Business and economic conditions affecting manufacturers are always changing. Flexibility in the pricing design that would allow manufacturers the ability to shift production away from peak load as they deem appropriate for business purposes, would be helpful. This would mean offering different price structures for different types of manufacturers or manufacturing facilities to accommodate different manufacturing practices, processes and procedures. The concern here is what may be the best price design for Class B consumers as a group, may not be the best one for certain manufacturers in specific locations.

3. Any other concerns with the methodology and conclusions of the paper?

Although the methodology and the conclusions of the staff research paper were developed from a regulatory perspective it will be important to study the impact of the design alternatives on manufacturers.

4. What non-economic factors should be considered in the evaluation of pricing designs going forward?

The QMA believes it will be important to evaluate pricing designs within the context of current socioeconomic factors and government policy objectives for business attraction, growth and development combined with a greater emphasis on finding local solutions to solve local problems (e.g., locational pricing for instance). Electricity pricing should not be a deterrent to investing in manufacturing in Ontario.

5. What does the experience with Time-Of-Use or other variable prices (e.g. HOEP) suggest about the merits and drawbacks of exposing consumers to more dynamic prices?

Monitoring and managing electricity costs outside of “normal” Time-Of-Use periods, for example, is not a routine course of business for most manufacturers because it tends to be labour intensive and of limited value. However, with the advancement and installation of automated “smart” power monitoring and control technologies manufacturers will be able to better manage processes that may make dynamic pricing more acceptable rather than avoidable.

6. *How far in advance do electricity prices in each hour need to be communicated to consumers under variable pricing approaches?*

No comment.

6a. *Need the time period be as long as those available under forward price plans like the RPP?*

No comment.

7. *What value do customers place on less dynamic prices and how might that value be reflected?*

No comment.

7a. *For instance, would general service customers be willing to pay a premium to be insulated from dynamic prices?*

There would be little willingness to pay a premium unless it ensured the lowest total cost on average over a twelve-month period for example. It would likely be viewed as a form of electricity “insurance” that may be suitable under certain circumstances.

April 18, 2019