

Briefing Note for the Ontario Auto Mayors

Subject: Automotive Industry and Electricity Prices

Prepared by Automotive Policy Research Centre (APRC) (<https://aprc.mcmaster.ca/>)

Background on Issue:

1. Electricity prices for industrial consumers in Ontario are high and appear to be rising. According to the Ontario Energy Board, the average rate paid by manufacturers in Ontario in 2015 was 9.22 cents per kilowatt hour. In November 2015 it was 11.6 cents and in May of 2016 the rate was 12.1 cents. According to data provided by the U.S. Department of Energy, the rates paid by industrial users are lower in many other jurisdictions with which Ontario competes for manufacturing investment. For example:
 - a. The rates paid by manufacturers in certain Midwestern states with significant auto production were much lower (The April 2016 rate in Michigan was 6.73 cents per kilowatt hour, in Indiana it was 7.13 cents, and in Ohio it was 6.76 cents)
 - b. The rates paid by manufacturers in certain Southern states with significant auto production were also much lower (The April 2016 rate in Kentucky was 5.35 cents per kilowatt hour, in Alabama it was 5.91 cents, and in Texas it was 4.82 cents)
 - c. In Canada only Nova Scotia had a higher industrial rate in 2015
2. In other jurisdictions with which Ontario competes for manufacturing investment, industrial users pay a lower rate than residential users do. For example, in April 2016 the residential rate in Michigan was 14.95 cents per kilowatt hour and in Ohio it was 12.76 cents per kilowatt hour. Ontario does not have a special reduced rate for industrial users.
3. Industrial consumers in Ontario pay a base commodity charge called the Hourly Ontario Energy Price. In addition to this base charge, industrial consumers also pay a Global Adjustment Fee, delivery charge, distribution charge, debt retirement charge and regulatory charge. To understand the Global Adjustment fee, consider the following:
 - a. In the past ten years, there has been a shift in the supply mix with increased reliance on renewable sources of electricity and a transition away from coal-fired generation.
 - b. Sometimes more renewable energy is produced than is required by energy consumers in Ontario. When that happens, the surplus energy is sold to another jurisdiction, typically at a reduced cost.
 - c. The Global Adjustment is calculated at least in part based on the difference between the Hourly Ontario Energy Price and the contracted amounts guaranteed to the generators of electricity. A larger gap between the Hourly Ontario Energy Price and the price for electricity sold to other jurisdictions means a larger Global Adjustment.
 - d. The portion of the Global Adjustment paid by individual industrial energy consumers is a function of how much energy they used during the highest demand hours in a year. The more energy an industrial user consumes during peak hours, the larger their share of the Global Adjustment.

4. The Province of Ontario does offer a number of programs that are designed to help consumers shift consumption to non-peak times and therefore reduce their share of the Global Adjustment. However, consumers unable to shift consumption away from peak times are not able to reduce their share of the Global Adjustment in this way. In fact, they end up paying a disproportionate amount of the Global Adjustment.

APRC Research Conclusions (Tentative):

APRC has not yet completed its work, but initial findings would seem to indicate that:

1. Until recently, electricity costs were a source of competitive advantage for Ontario industry. That, obviously, is no longer the case. On a per vehicle basis, the cost of electricity for a vehicle produced in Ontario is only a few dollars more than competing jurisdictions, but finding cost savings of just a few cents per vehicle can be very difficult. In a highly competitive environment where the costs per vehicle for a final assembly operation are only about \$3,500, those few extra dollars related to electricity are important
2. The anxiety that is being expressed by industry with respect to electricity costs may be a function of:
 - a. The shift from “advantage” to “disadvantage”
 - b. The fact that costs have risen so fast
 - c. Lack of confidence that costs will not continue to rise at a similar rate (although regulators have provided assurances that increases will mitigate)
 - d. Lack of transparency / understanding related to how prices are actually set (particularly by senior executives that are not directly charged with managing electricity usage, but are responsible for promoting Canada to headquarters)

Industry Perspective:

1. Ontario Chamber of Commerce released a report in July 2015 on how the combined effect of increased electricity prices and other reforms are increasing the cost of business in Ontario and this presents the risk of seeing businesses flee to other jurisdictions. In this report they cite a survey they conducted which found that 1 in 20 businesses in Ontario are expected to close due to rising electricity prices. The Ontario Chamber states that improved communication and transparency about electricity pricing and potential cost drivers will help businesses manage their electricity consumption and make more informed decisions.
2. Canadian Manufacturers and Exporters released a pre-budget report in January 2015 which expressed concern about electricity rates in Ontario. The report stated that competitive electricity rates are fundamental to the success of the manufacturing sector and the economy of Ontario. It also stated that despite attempts at reforming the pricing, Ontario still had some of the highest electricity rates in North America

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