Coalition of Ontario Manufacturers for Competitive Power Rates – Presentation to Standing Committee on Finance and Economic Development – January 29, 2015

My name is Steve Morrissey, I'm the Executive Vice President of the Cement Association of Canada and a Co-Chair of the Coalition. I'm joined by my colleagues Brad Robertson, Corporate EBS Manager at ESCO a manufacturer of highly engineered products used in mining, infrastructure development, oil and gas sectors and Ted Cowan with the Ontario Federation of Agriculture

We represent industries that employ over a million men and women in Ontario. Over 160,000 on farms. Over 500,000 in food processing. Tens of thousands in auto parts and assembly. Packaging, paper, foundries, plastics, chemicals.

We 're here today to talk to you about how the high cost of industrial electricity in Ontario is hindering the growth of the Ontario economy. In terms of jobs and investment Ontario lost 270,000 manufacturing jobs between 2004 and 2014. Farm employment is down by over 20,000 in the past four years. Manufacturing is down, Forestry is down.

Some will argue that this is a result of the 2008 recession or international competition. Ontario has recovered the jobs that were lost during the recession. However Ontario's high industrial electricity rates are hurting our international competitiveness because it is increasing the costs of production across Ontario.

This is manifesting itself with manufacturing investment down by over 30%. In this globalized world the Ontario divisions of multinational corporations must compete within their companies for investments. Unfortunately, Ontario isn't winning as many of these investments as they could be.

Several years ago Ontario took a giant leap to make its corporate tax rate some of the most competitive in the world. That worked to ensure Ontario retained and attracted jobs in the finance, insurance, health care, educational services. It helped slowed the losses in the agriculture and manufacturing sector but as other jurisdictions reduced their tax rates the competitive advantage we had has been reduced.

We're not just here to highlight the challenges Ontario is facing; we're here to propose a solution for how Ontario can reduce its industrial electricity rates in a way that will not hurt the individual ratepayers.

We are asking that Ontario establish an Ontario farm/industrial power rate. Prior to the breakup of the old Ontario Hydro, Ontario did have a farm/industrial rate. We desperately need that rate again.

I would now like to turn to Brad to speak on some of the specifics of our proposal.

The current suite of price programs are helpful but they are only helpful for a certain segment of the Ontario economy. For instance the 5CP program lowers the cost of power by 2 cents a kWh. It is good, but fewer than 300 employers in Ontario qualify for it and it costs $130 million a year. We believe Ontario should keep the 5CP and other programs - but for all of Ontario to compete, we need Farm/Industrial rates.

Through our proposal a Farm/Industrial rate could be phased in over three years and reduce industrial costs by 2 cents a kWh. This cross the board reduction will help ten thousand firms who employ over one million Ontarians.

Our analysis shows that introducing a farm/Industrial rates will generate 9,400 new jobs each year in Ontario on top of the 96,000 Ontario normally generates.

Ontario can have Farm/Industrial rates again without any new increase for any other power user by taking these four steps:

1. In this spring budget of 2015, commit to developing and implementing Farm/Industrial rates within one year.
2. In the 2016 budget, reduce the Ontario portion of HST on all power bills, from 8% to 4% and adjust rates to use this $250 in reduced billing, so residential and commercial rates fall by about 1% and farm and industrial rates fall by about 2%.
3. Repeat this process in the spring 2017 budget with the remaining 4% of HST on power bills so rates would then be down 2% for residential and commercial users and 4% to 5% for farm and industrial customers.
4. In the 2018 budget, the Debt Retirement Charge will no longer be needed. At that time, rates can be further adjusted so residential rates fall an additional 3% and farm and industrial rates fall by an additional 15%.

At the end of the phase in period, farm rates would be down from their present average of 17 ½ cents a kWh to 15 ½ cents. This remains high compared to farm rates in other parts of North America. Industrial rates would go from their present average of 10 cents to 8 cents a kWh. That is 6.4 cents US. Ontario Industrial power rates would move from the high end of rates back into the mid-range of rates for the continent and Ontario would be competitive again.

No one would pay more for power because of this. Everyone would pay less. Farms and industry, would see greater reductions; but compared to the rest of North America their rates are currently more out of line.

Farm/Industrial rates would take industrial power costs from $5 billion a year to $4 billion a year - a 20% saving. We are convinced this will be re-invested in Ontario and that a commitment now to Farm/industrial rates will catch the attention of every CFO in Ontario and they will re-examine their investment plans and match those saving with new investment. Manufacturing investment used to be over $10 billion a year in Ontario. We do not see it returning to those levels quickly. But Farm/Industrial rates will move manufacturing investment from its present level of $6.5 billion to over $8 billion a year. That extra investment, at a 'cost per job' of $ 175,000 will bring an extra 9,400 jobs a year into Ontario that we will not otherwise get.

We understand that this is not free. Ontario would give up $500 million a year in HST. Those 9,400 new workers if they continue to be in school for extra years or living at home with mom and dad, will not generate government revenues. Employed, they will spend and pay HST and income taxes and more than make up for the so called lost revenue. Three years of this additional employment and the lost tax revenue is more than restored. Compared to other employment creation efforts, this will be low cost when paid out and it will be repaid by the taxes these workers pay later.

This is not about lost tax revenue. This is about jobs and keeping Ontario as a place to live and work. Farm/Industrial rates are the only way of reducing power costs now. This move will make Ontario more competitive. It will not mean Ontario has the lowest electricity prices but it will help us be competitive.

We would be pleased to take any questions you might have

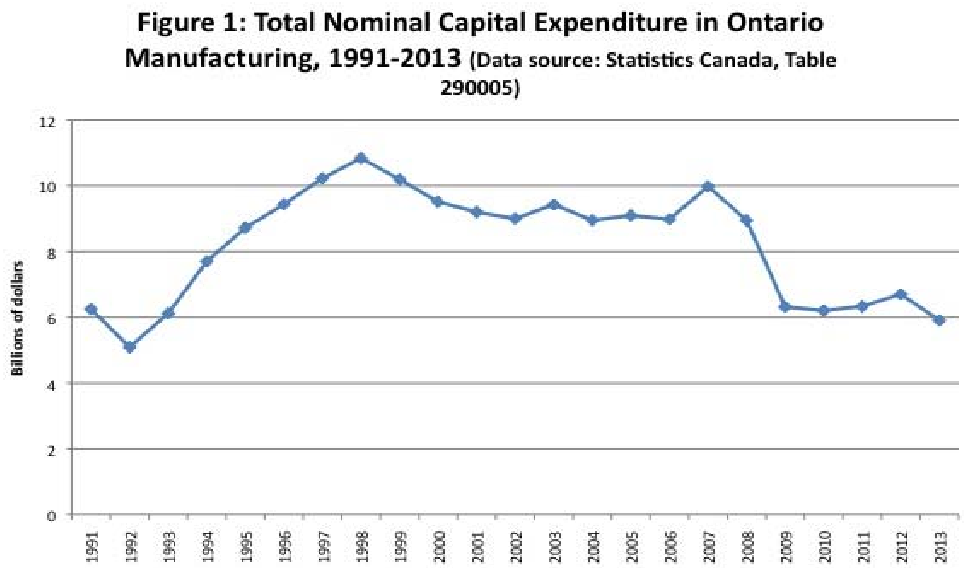
Attachments

The following attachments provide numerical support for key aspects of the Farm Industrial Rate proposal.

1 Manufacturing Job Losses in Ontario Census Metropolitan Areas 2004 – 2014

Ontario CMA's	**% Manufacturing in CMA**		**Jobs Lost in 10 Years**
	2004	**2014**	**Net**
St. Catharine's – Niagara Falls	13.2	11.1	2,300
Sudbury	3.7	3.2	300
Guelph	23.7	20.1	2,800
Peterborough	9.7	7.3	1,800
Brantford	26.1	20.9	1,800
London	16.2	12.0	10,700
Ottawa	6.5	3.7	9,700
Kingston	8.8	5.2	2,100
Kitchener – Waterloo	26.7	18.2	11,600
Toronto	18.1	10.6	158,700
Windsor	28.5	20.7	15,300
Oshawa	18.4	10.1	12,100
Thunder Bay	9.6	4.9	3,500
Barrie	20.6	10.4	7,300
Hamilton	22.4	11.7	36,100
Total	**17.5**	**10.7**	**270,100**

Total Ontario unemployment has hovered at the 600,000 level for 6 years. Manufacturing job losses are a major contributor. Agriculture with employment of just 160,000 has reduced employment by 20,000.



Note – manufacturing investment peaked in 1998 at $10.5 billion and was near at $10 billion 2007. In 2011 it was just under $6 billion. We believe lower power rates can restore private manufacturing investment in Ontario to the $8 billion level.

3 Estimated New Jobs, Profits and Provincial Tax Revenues

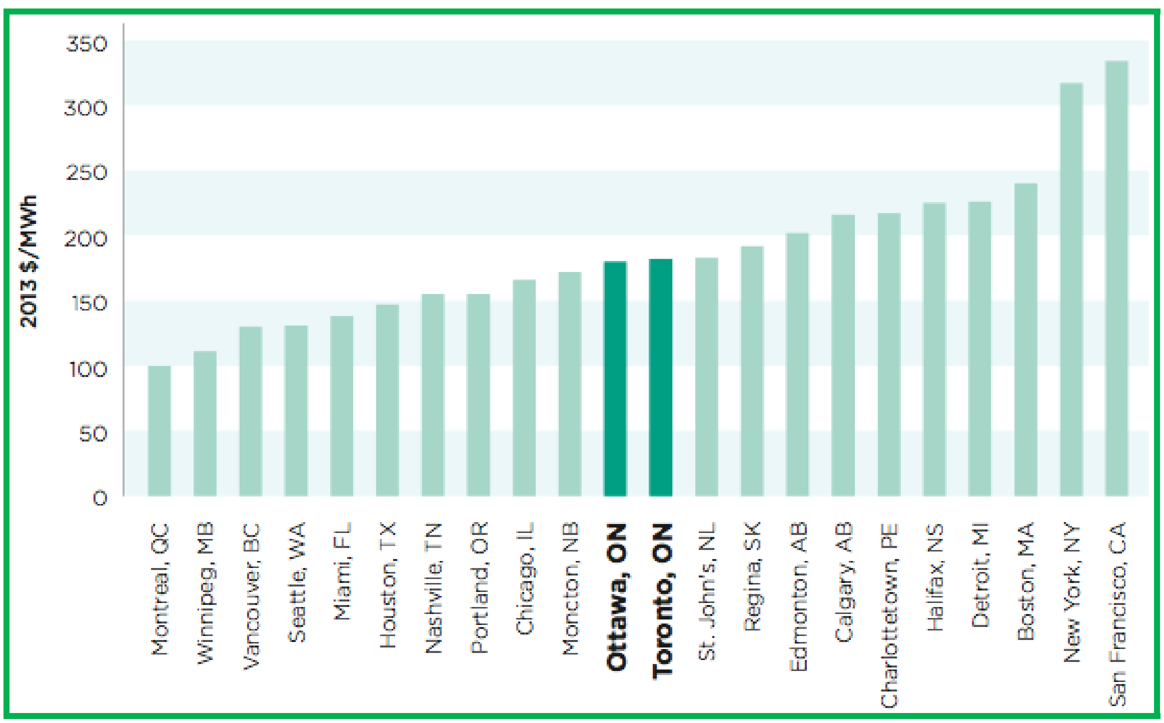
Year	New Jobs	Jobs Cumu	New Income	Cumulative Income	New Profits	Cumulative Profits	New Gross Income	New Taxes
1 & 2	4,500	4,500	$200 M	$200	$60	$60 M	$260 M	$55 M
3	9,100	13,600	$410	$610	$300	$360	$970	$188
4	9,100	22,700	$410	$1.02 B	$300	$960	$1.68 B	$320
5	9,100	31,800	$410	$1.43	$300	$1260 B	$2.39	$452
6	9,100	40,900	$410	$1.84	$300	$1560	$3.1	$585
7	9,100	50,000	$410	$2.25 B	$300	$1.86	$3.8	$717
8	9,100	59,100	$410	$2.66	$300	$2.16	$4.5	$849

No change in tax rates or application. Avg tax rate of 8% HST on 75% of personal income, 9% income tax on personal income, $400 per new job in fuel, alcohol taxes, 11.5% on 9% of added corporate income

Note: In year 5 tax revenues are almost at the old level. In year six they exceed the old level.

4 Comparing Ontario Power Rates With Competing Jurisdictions

Residential Rates Ontario and Competing Areas



5 Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, July 2014 and 2013 (Cents per Kilowatt hour)

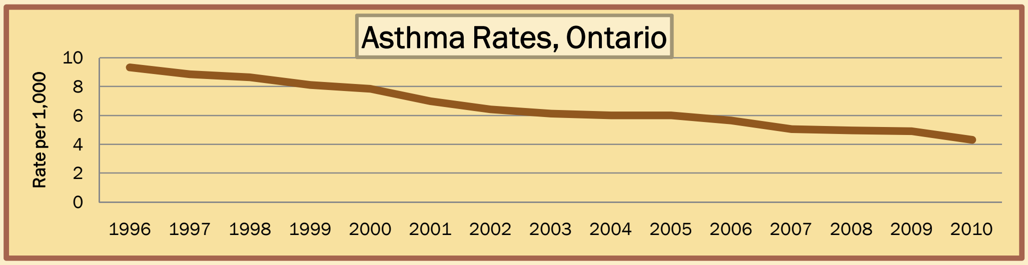
Census Division	Residential		Commercial		Industrial		Transportation		All Sectors	
	July 2014	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**	**July 2014**	**July 2013**
New York	20.31	20.04	16.73	16.67	6.36	6.26	14.33	14.38	16.75	17.08
Penn.	13.96	13.12	9.49	9.26	7.10	7.23	7.39	7.74	10.35	10.08
Illinois	11.62	10.04	8.77	8.01	6.25	5.78	4.98	5.89	8.95	8.12
Indiana	11.67	11.05	9.88	9.40	6.95	6.62	9.82	9.30	9.17	8.81
Michigan	15.11	15.06	11.06	11.46	7.73	8.30	--	9.29	11.37	11.99
Ohio	13.44	12.87	9.96	9.41	6.83	6.31	7.80	6.88	10.21	9.72
N. Carolina	11.29	11.17	9.00	9.05	6.92	6.85	7.70	7.85	9.68	9.56
S. Carolina	12.55	12.12	10.23	10.02	6.53	6.22	--	--	9.99	9.56

U.S. Energy Information Agency Data for July 2014 Release Date: September 25, 2014

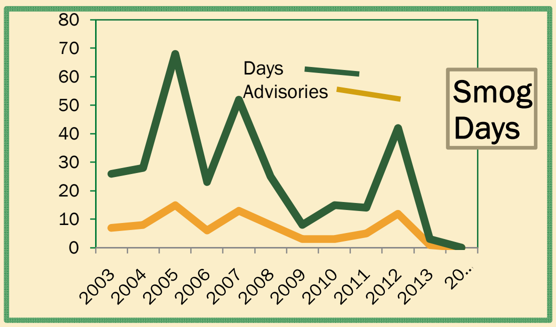
All states have an industrial power rate that is substantially lower than that for other uses. These states, which Ontario competes most directly with, have industrial power rates that are typically half of their residential power rate. Compared to rates paid by Ontario industry, these rates are 25% to 40% lower. Ontario Farms of the sort that would be classed as General Service here in Ontario, also enjoy these lower rates.

Ontario's rate for rural businesses homes and farms averages in US currency averages 19.8 cents, or almost equal to the highest cost residential power in New York State.

6 Some overlooked benefits of off-coal



Source: Ontario Asthma Surveillance Information System



Note: asthma and smog days are greatly reduced. It is unlikely that smog days will stay at zero, but very likely that they will remain vastly lower than they were before 2007.

7 Power Rates in Nova Scotia 2014

	Min. Monthly Service Charge	KWH Rate	Demand Charge per KW	Fuel Adjustment Rider
	Dollars per month	Cents per kwh	Dollars per kva	Cents per kwh
Residential	10.83	14.251	0	0
Small Commercial	12.65	15.092 1st 200 kwh 13.278 over 200	0	0
Commercial	12.65	11.208 7.929 over 200	10.497	0
Large Commercial	12.65	8.029	13.345	0
Small Industrial	12.65	10.09 7.707 over 200	7.714	0
Medium Industrial	12.65	7.241	12.501	0
Large Industrial	12.65	7.62 7.222 (interruptible)	11.995	

Source:
https://www.nspower.ca/en/home/about-us/electricity-rates-and-regulations/default.aspx

There are also rates for Charities, Un-metered Users and Municipalities
The example illustrates that farm/industrial rates can be administratively straight forward. The specific rates and likely the class boundaries between small, medium, large would be different in Ontario.