Ontario Energy Association

ONTARIO ENERGY ASSOCIATION
2013 PROVINCIAL PRE-BUDGET SUBMISSION

Ontario Energy Association

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The Honourable Charles Sousa
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Dear Minister Sousa:

On behalf of the Ontario Energy Association's (OEA) Board of Directors and members, we would like to offer our appreciation for the opportunity afforded to the OEA to participate in your 2013 provincial pre-budget consultation. As a follow up, please find attached our OEA 2013 pre-budget submission.

As Ontario's energy voice, the OEA has more than 150 corporate members who represent the full diversity of the energy industry in Ontario – power producers, firms that transport, transmit, and deliver natural gas and electricity, marketers and retailers, manufacturers, contractors, service providers, and energy consultants. Such diversity allows us to offer a broad and comprehensive perspective on Ontario's 2013 budget to the benefit of the sector and the provincial economy as a whole.

Ontario continues to experience fiscal challenges. The provincial energy sector can help to reduce such pressures by driving efficiencies by incentivising consolidation of services in order to help control future cost increases ultimately borne by energy customers. Resulting from bold policies, Ontario has attracted investment in energy infrastructure over the past several years and therefore enjoys sufficient supply to meet the energy demand needs of all customers. Which is why now is the time to turn our focus towards delivering services more efficiently to energy customers.

To effectively deliver services to energy customers within Ontario, our submission identifies a few solutions that will result in:

- Incentivising consolidation of Ontario's electricity distribution companies and reducing barriers to private investment;
- Increasing efficiencies and eliminating overlap within energy agencies by significantly streamlining their functions in order to help address rising costs to consumers and improve the delivery of services.

We look forward to continuing the dialogue with your government on how changes to Ontario's energy sector can help address some of Ontario's fiscal challenges and the options identified within our submission. If you have any questions regarding this submission please contact Tina Arvanitis, Vice President of Communications and Stakeholder Relations at 647.920.3269 or tina@energyontario.ca.

Let's unravel the most complex energy challenges, together.

Yours truly,

Elise Herzig
President and CEO
Ontario Energy Association

EXECUTIVE SUMMARY

Rationalising Ontario's Energy Sector to Address Rising Costs to Customers

The Ontario Energy Association (OEA) welcomes the commitment of the Government of Ontario to strengthen its fiscal management in an effort to pave the way to balanced budgets. The OEA's key contribution to Ontario's pre-budget process is to demonstrate how the energy sector can assist the government in meeting its overall policy objectives and helping to provide solutions to the Province's fiscal challenges. The importance of Ontario's energy sector cannot be underestimated:

- Ontario's electricity sector is a $15 billion annual industry that employs approximately 95,000 people in the province, 65,000 of those directly[1]; and
- Ontario's natural gas sector is a $2 billion annual industry that directly employs 7,500 people in Ontario[2].

In order to help address some of Ontario's fiscal challenges, the OEA recommends that the Government of Ontario:

I. Incentivise consolidation of electricity Local Distribution Companies (LDCs) and remove barriers to private investment in LDCs

II. Increase efficiencies and eliminate overlap within energy agencies by significantly streamlining their functions in order to help address rising costs to consumers and improve the delivery of services.

Our recommendations would create new investment opportunities for energy companies, will generate savings for Ontario families and businesses, and will continue repositioning the energy sector to support economic growth.

1 Government of Ontario's Long-Term Energy Plan, 2010
2 INC Global Insights, 2008

I. INCENTIVISE CONSOLIDATION OF LOCAL DISTRIBUTION COMPANIES AND REMOVE BARRIERS TO PRIVATE INVESTMENT IN LDCs

RECOMMENDATION 1: INVESTMENT IN ONTARIO'S LDCs

The OEA recommends that the Government of Ontario strengthen the incentives for LDCs to undertake voluntary consolidation, and should simultaneously remove barriers to private investment in Ontario's LDCs.

Over the last few years, Ontario's electricity LDCs have been given new obligations in addition to their core distribution business functions. For example, LDCs are connecting an increasing amount of renewable generation projects, meeting conservation and demand management (CDM) targets, and installing smart meters in Ontario homes.

In April 2012, the Ontario Minister of Energy established the Ontario Distribution Sector Review Panel (the "Panel") to provide expert advice to the government on how to improve efficiencies in Ontario's electricity sector with the aim of reducing the financial cost of electricity distribution for customers. In December 2012, the Panel delivered their report, Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First, that reviewed Ontario's electricity distribution sector and made many recommendations.

The OEA believes that the Panel Report is a useful document, particularly with respect to its explanation for the need to pursue consolidation in Ontario. Although the OEA cannot support a number of the conclusions drawn and recommendations made in the Report, we hope that the government will strike a course with new policy direction that emphasizes positive incentives for consolidation.

In support of our advocacy of consolidation of electricity LDCs, the sub-sections below convey additional recommendations to incentivise consolidation and remove barriers to private sector investment.

RECOMMENDATION 2: ELIMINATION OF THE TRANSFER TAX

The OEA recommends that the Government of Ontario abolish the transfer tax. Concurrently, the government should consider solutions addressing the potential loss of PILs revenues accruing to the OEFC that are used for paying off the stranded Ontario Hydro debt.

Municipally-owned electricity LDCs in Ontario have limited financial resources with which to invest in critical infrastructure. Certain existing policy instruments continue to deter them from attracting private capital or from seeking voluntary mergers with private entities, either of which could solve access to capital issues. One example is the Transfer Tax that creates a distorted playing field for electricity distribution companies. The Electricity Act, 1998 imposes a 33% Transfer Tax on any sale of assets owned by a municipal LDC, payable to the Ontario Electricity Financial Corporation (OEFC). The OEFC uses proceeds from this tax, along with other revenue sources, to pay off the stranded Ontario Hydro debt.

Federal legislation exempts LDCs that are at least 90% owned by a municipality from paying federal income tax, while parallel provincial laws direct such LDCs to instead make payments in lieu of taxes (PILs) to the OEFC. Current regulation exempts certain transactions from the Transfer Tax, such as transfers between municipally-owned LDCs and Hydro One or OPG. However, this exemption does not extend to transfers of more than 10% of assets to private investors. One of the reasons for excluding transactions with private entities was that such an exemption would result in reduced revenues to apply to the stranded Ontario Hydro debt by creating "tax leakage" of revenues to the federal government.

Historically, the Government of Canada accommodated such situations by agreeing to forego collection of income taxes for a period of time from provincially- or municipally-owned public utilities which changed hands, allowing provincial governments to continue to collect PILs for a period lasting up to 10 years. The Ontario Government should seek such an accommodation from the federal government again. For example, a 10-year deal with the Government of Canada would allow PILs to continue for long enough that the residual stranded debt of Ontario Hydro would be eliminated.

Changing the Transfer Tax policy in a manner consistent with the Province's interest in eliminating the stranded Ontario Hydro debt would be a strong contributor to a healthier electricity distribution sector in the future, with greater capacity to deliver benefits to customers.

RECOMMENDATION 3: PUBLIC-PRIVATE PARTNERSHIPS

The OEA recommends that the Government of Ontario review the regulatory and legislative framework for LDCs to ensure that private sector investments can flow to LDCs where economical.

The continued exclusion of the private sector from the Ontario electricity LDC sector has reduced the options for capital-raising, prevented monetization of municipal value, and has discouraged additional consolidation and efficiency in the sector. For example, the fact that access to Infrastructure Ontario funding is limited to utilities that are 100%-owned by municipalities punishes those municipally owned utilities that have chosen to privatize up to 10% of their assets and, as such, forego access to cheaper public funding. Many of the OEA's electricity LDC members believe that greater private sector involvement would be beneficial for the sector, and LDCs must not be penalised for choosing to partner with private sector companies.

RECOMMENDATION 4: COORDINATED INFRASTRUCTURE PLANNING

Recommendation: The OEA recommends that the Government of Ontario continue to seek improved co-ordination of energy delivery infrastructure planning between all provincial energy agencies.

Ontario's electricity transmission and distribution systems are in need of greater infrastructure investment. Due to investment deficits, transmission and distribution infrastructure is aging while operating and maintenance costs are escalating. Any delays of refurbishment or replacement of this infrastructure may result in greater overall costs to customers should capital investments occur in an accelerated manner some time in the future.

The renewal of Ontario's energy infrastructure will underpin both the economic and demographic growth of the province. The Conference Board of Canada released a study in February 2012 that states that Canada's electricity system is in need of $347.5 billion in investment between 2011 and 2030. The direct, indirect, and induced impacts of that investment are expected to add an average of $10.9 billion per year to real GDP and create an average of 156,000 jobs per year[3]. Ontario's Long-Term Energy Plan estimates that the industry will invest over $87 billion in capital costs in Ontario over the same period[4].

3 Shedding Light on the Economic Impact of Investing in Electricity Infrastructure, Conference Board of Canada, February 2012

4 Ontario's Long-Term Energy Plan, 2010, p. 55

Yet today disconnects exist between provincial distribution and transmission planning, municipal planning, and the Ontario Energy Board's (OEB) approval process for distributors' and transmitters' infrastructure upgrades – one that that needs to be addressed. Such plans (especially project timelines) should be better integrated and coordinated to ensure that infrastructure plans are implemented in a timely manner; the OEA is therefore following with interest the OEB's current Regional Planning proceeding.

II. STREAMLINE AGENCY FUNCTIONS TO INCREASE EFFICIENCIES

RECOMMENDATION 5: ENERGY AGENCY FUNCTIONS

The OEA recommends that the Government of Ontario increase efficiencies and eliminate overlap within energy agencies by significantly streamlining their functions in order to help address rising costs to consumers and improve the delivery of services.

There is overlap in the various functions of Ontario's energy agencies. For example, the Ontario Power Authority (OPA), the Ministry of Energy, and the Independent Electricity System Operator (IESO) all do some form of power system planning; the OPA, Infrastructure Ontario, and the OEFC all procure generation projects and/or manage procurement contracts; while the OPA, the IESO, and the OEB either administer or regulate different conservation and demand management (including demand-response) programs/initiatives.

Streamlining these agencies' mandates would result in a much easier-to-navigate system as well as clearer lines of responsibility and accountability amongst the energy agencies. Ultimately, streamlining of mandates will improve coordination of both energy planning and energy program delivery functions and result in better outcomes for all market participants.

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