

IESO
Single Schedule Market
High Level Design

Submission to the IESO
by
Common Voice Northwest
Energy Task Force
REGIONAL PRICING FOR
NORTHWESTERN
ONTARIO

November 30, 2018

ZONAL PRICING FOR NORTHWESTERN ONTARIO

BACKGROUND

For most of its existence the electrical grid in the Northwest was an island. That is, it was self-contained with no connection to the main Ontario transmission grid. Even when a connection was made through the existing East-West Tie via Wawa, we continued to operate independently from the Ontario system. This was clearly evident when the massive blackout hit Ontario but stopped at Wawa. Our lights remained on and our industries continued to operate.

The vast majority of our power comes from the numerous hydro-electric installations throughout the Northwest. Our thermal plants (Atikokan and Thunder Bay) are operating at only a modest amount currently with Thunder Bay being in the process of closing. There are a few wind and solar projects up and running but their output is minimal. Also, there are only a few NUGS still operating. We are currently an 'orange zone' where because of the lack of load, no new wind, solar or other renewables will be allowed to connect to the grid.

We have long believed that the supply and cost of electricity is an economic development tool and have long believed that a regional price would provide a distinct advantage to the region in attracting new energy intensive industry as well as reducing the overall cost to the consumer. (Many homes, businesses and institutions are heated electrically or by fuel oil due to the lack of access to natural gas.)

Based on the historical demand and supply balance of electricity in the Northwest, wholesale electricity prices and customer rates for this region would have been on balance the lowest across Ontario.

The collective view of Northwestern Ontario has always been that it should directly benefit from the low-cost generation produced through the capturing of the natural water power of the region. Historically, water power from the Northwest has been the less expensive to produce than thermal, nuclear, natural gas and the more recent solar or wind generation.

The recent decision by the Independent Electrical System Operator (IESO) to explore the concept of transitioning the Ontario wholesale market from the current two-schedule uniform pricing system to a single-schedule system with zonal and nodal prices is welcomed by the leadership of Northwestern Ontario.

Following discussions over the months since the release of the IESO paper **Single Schedule Market High Level Design**, the IESO supported a request from the Common Voice Northwest Energy Task Force (CVNW ETF) to have a separate analysis conducted for the Northwest and Northeast in order that the regions could understand the implications of nodal or zonal pricing on their ratepayers. It was agreed that the

IESO would identify an appropriate third-party entity already registered with them as a Vendor-of-Record for program/policy design to conduct the analysis. The terms of reference were circulated to all identified Vendors-of-Record and as a result of their submissions, the Posterity Group was selected. The terms of reference were jointly agreed upon by the IESO and the CVNW ETF.

The following are the terms of reference of the Analysis:

1. Summarize planned changes to transition the Ontario wholesale market from uniform pricing to zonal and nodal pricing, including defining customers to whom the changes will (or may) be applicable.
2. Leveraging historical Hourly Ontario Energy Price (+uplift costs for losses and transmission congestion) and zonal energy price data made available by the IESO for the January 2014-December 2017 period, conduct an assessment of the actual electricity price vs. price for the Northwest and Northeast zones had the zonal pricing model (including residual disbursements) described in the [Single Schedule Market High-Level Design](#) been in effect.
 - In addition to the overall zonal assessment, analyze the potential impact to price/cost for the load centres of Thunder Bay and Sudbury had the zonal pricing model (including residual disbursements) described in the Single Schedule Market High-Level Design been in effect. What was the cost vs. what would the cost have been?
3. Describe changes to customer rates (i.e., residential and industrial) that will need to be consulted on with stakeholders in consideration of implementation of LMPs.
4. Provide a high-level assessment of historical customer rates (i.e., residential and industrial) based on a historical Northwest and Northeast zonal prices using the above assessment and descriptions and compare to historical customer rates.
5. Provide an indication as to how the above scenarios would affect the top 5 yearly peak time Global Adjustment avoidance program that some large customers participate in.

The Analysis was provided to CVNW ETF on November 19, 2018 and a subsequent conference call was arranged to enable representatives of CVNW ETF to discuss the report with the Posterity Group and the IESO.¹

Third Party Commentary on Zonal Pricing in Northern Ontario

¹ November 20, 2018

PROJECTED WHOLESALE PRICES

Section 2 of the Third Party Commentary on Zonal Pricing in Northern Ontario report² (The Report or the Posterity Group Report) analyses the projected SSM wholesale electricity prices in Northern Ontario. The following are excerpts from the report

“The IESO provided consolidated historical data for analysis to estimate the wholesale market price of electricity under the proposed SSM. Data was collected and summarized for all nodes in the Northwest and Northeast zones⁷, and more narrowly for all nodes serving the Thunder Bay Hydro and Greater Sudbury Hydro LDCs, over a 4-year period spanning from January 2014 to December 2017.

The “Status Quo” price calculated by IESO and presented below is the price under the current two-schedule system and includes the historical Hourly Ontario Energy Price, all uplift costs (transmission congestion costs currently captured by CMSCs) and all losses. The “Zonal” price calculated by the IESO, which can be directly compared with the current Status Quo, is the theoretical wholesale price that would have been in effect under the SSM, inclusive of all congestion rents and loss residuals reimbursements.

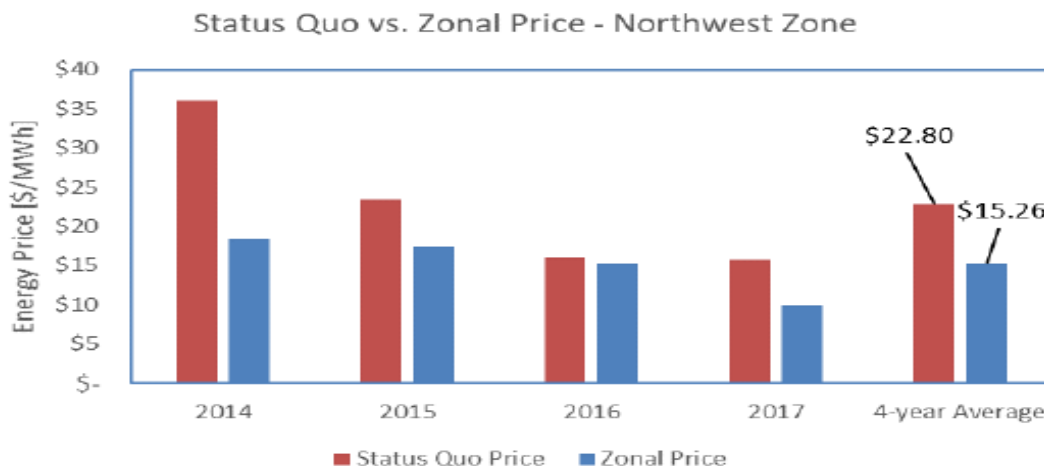


Figure 1: Status Quo vs. Zonal Price – Northwest Zone⁸

⁷ The IESO segments Ontario into ten electrical zones according to congestion and expected price separation

⁸ According to the IESO, 2014 prices were higher due to the prolonged winter in that year, commonly termed the “Polar Vortex”

The total generation resources in the Northwest and Northeast Zones generally exceed the zone peak demand, resulting in opportunities to export (mainly) low-

² Third Party Commentary on Zonal Pricing in Northern Ontario, Posterity Group, November 18, 2018. Copy of the report is attached as Appendix A

cost hydroelectric power to southern zones of Ontario⁹. However, the inter-zone transmission links are frequently congested, limiting the amount of power that can be exported to southern zones, resulting in lower nodal and zonal prices in the North (especially in the Northwest). In fact, negative shadow prices are observed more frequently in the Northern zones than any other zones in Ontario¹⁰. It follows that transitioning the Northern region from a uniform province-wide price to an SSM locational price would result in overall lower costs for these regions.

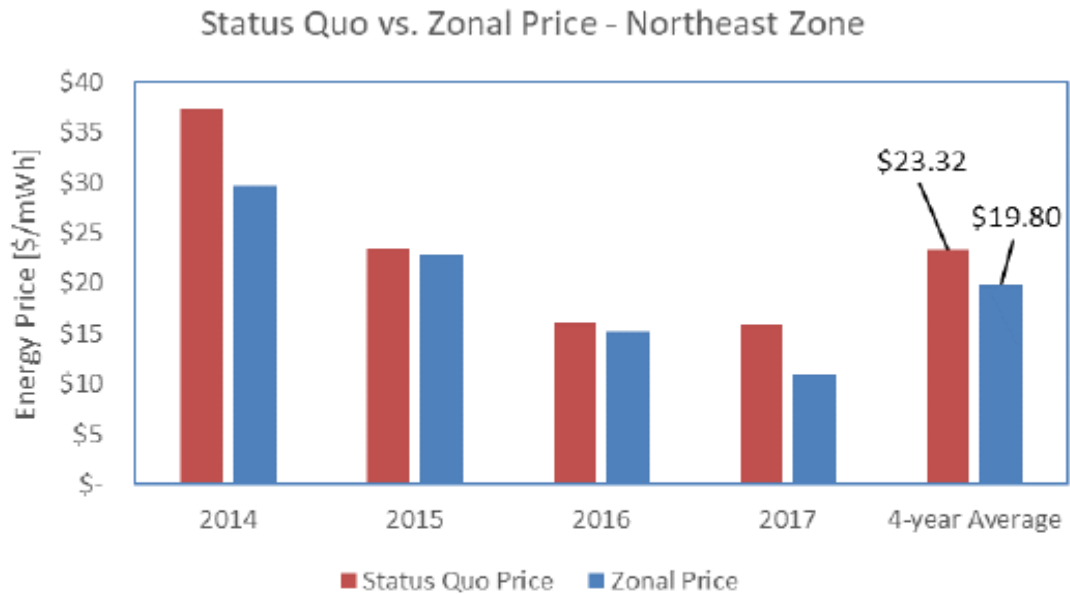


Figure 2: Status Quo vs. Zonal Price – Northeast Zone

Figure 1 and Figure 2 show that zonal prices are expected to be lower in both Northern regions relative to the Status Quo. Prices decrease from the Status Quo of roughly \$23/MWh to \$15.26/MWh in the Northwest (a 33% decrease), and \$19.80/MWh in the Northeast (a 15% decrease). The larger decrease in the Northwest is reflective of significant amounts of low-cost generation being “stranded” in that zone due to the congestion on the intertie through the Northeast and to the southern zones.

The IESO also provided consolidated historical data for analysis for two large Local Distribution Companies (LDCs) in the Northern Regions: Thunder Bay Hydro and Greater Sudbury Hydro. All nodes serving each LDC service territory were collected and summarized, and a consumption-weighted average price was established for the Status Quo and proposed SSM Zonal price. As Thunder Bay is located in the Northwest zone, and Sudbury is located in the Northeast zone,

⁹ Ontario Transmission System – IESO – December 12, 2017

¹⁰ Market Power Mitigation and Load Pricing – IESO – November 13, 2017

the results shown for each LDC in Figure 3 and Figure 4 parallel the results in Figure 1 and Figure 2.

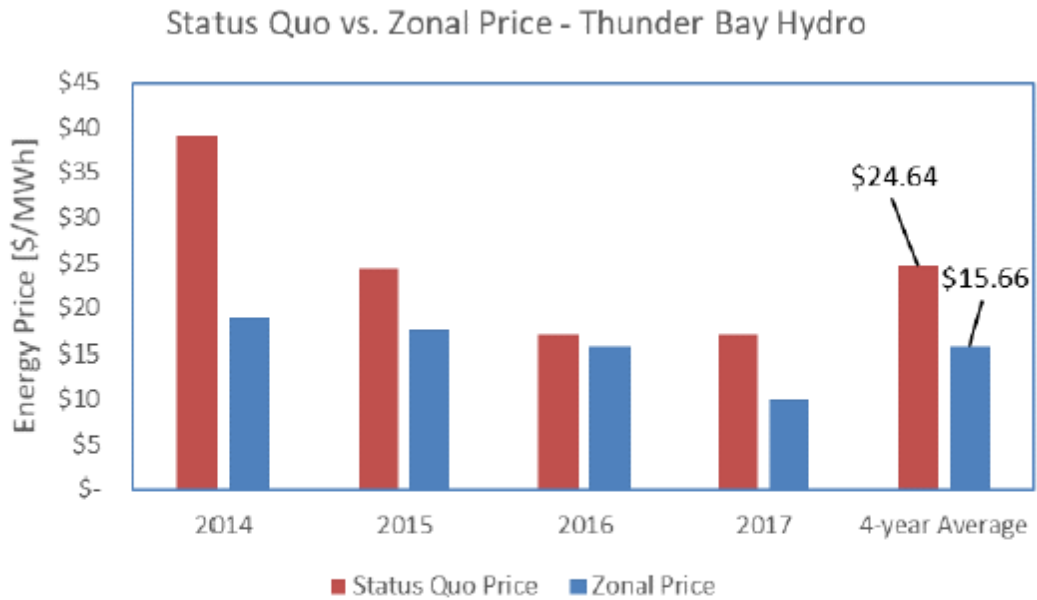


Figure 3: Status Quo vs. Zonal Price – Thunder Bay Hydro

Wholesale prices paid to the IESO by Thunder Bay Hydro closely mirror the Northwest zone wholesale price at \$15.66/MWh (a 36% decrease), while wholesale prices paid to the IESO by Greater Sudbury Hydro closely mirror the Northeast zone wholesale price at \$21.22/MWh (a 16% decrease).”

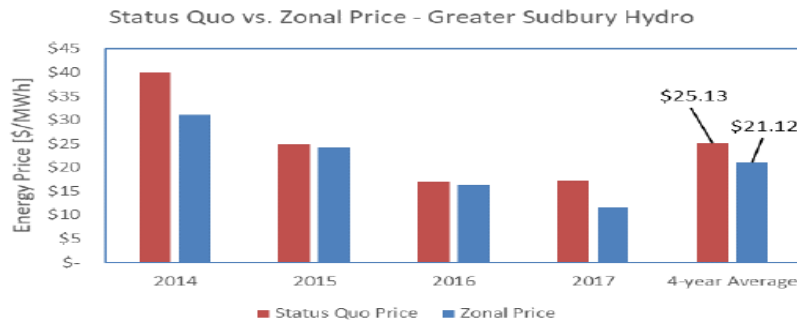


Figure 4: Status Quo vs. Zonal Price – Greater Sudbury Hydro

FUTURE IMPLICATIONS

Section 2.2 of the Posterity Report continues with an examination of a Future Outlook on the regions under a nodal pricing regime.

“While the historical analysis in Section 2.1 presents the prices that would have been observed under the SSM for the past four years, the prevailing historical condition of constrained generation within Northern zones may not necessarily be representative of conditions in the future. Changes to the network that may materially affect the dynamics of pricing in Northern zones include:

- Load growth (e.g., new mining operations, connection of remote communities)
- Variations in generation (e.g., low-water years, new generation developments);
- Infrastructure upgrades that reduce transmission bottlenecks and alleviate congestion;

o for example, the Northwest Bulk Transmission Line, East-West Tie Expansion; and

- Upgrades to interties with Manitoba and Minnesota;

In general, load growth would help alleviate congestion and could lead to increased zonal prices. Additions of generation would exacerbate the congestion and could decrease zonal prices, but reductions in generation (e.g., from low-water years) would reduce congestion and might lead to increased zonal prices. Improvements to the transmission system would make it easier to export power from the North (increasing zonal prices), while also making it easier to import power from the south when needed (reducing zonal prices). Any price increases observed in the North would likely be mitigated by reducing exports to Manitoba and Minnesota.

It is difficult to forecast the combined effects of the market dynamics listed above; however, the efficiencies realized by the SSM will tend to reduce overall supply prices in general. The IESO will work to assess the relative effects of all market dynamics as the Market Renewal design progresses.”³

³ Third Party Commentary on Zonal Pricing in Northern Ontario, Posterity Group, November 18, 2018. Copy of the report is attached as Appendix A

IMPACT ON RATES

Section 3 of the report provided a further analysis in terms of changes to customer rates:

“Commercial and Industrial Rates

The move from uniform pricing to zonal wholesale pricing will directly impact large direct-connect customers and LDCs, as they will pay wholesale zonal prices under the proposed SSM. In the Northern zones of Ontario, zonal prices are anticipated to be lower than the prices resulting from the existing two-schedule market design.

It is not certain what the impact of the SSM will be to commercial and industrial customers¹¹ *within LDC service territories* who currently pay wholesale rates through the uniform Hourly Ontario Electricity Price (HOEP). The OEB has not made any public comment on the specifics of the proposed SSM aside from stating their general support for Market Renewal and providing assistance to the IESO in moving to the high-level design phase of the project¹². The recent documentation submitted to OEB’s current consultation on Rate Design for Commercial and Industrial Customers¹³ does not appear to address the possibility of zonal pricing and focuses instead on distribution rate design not affected by the SSM.

Residential and Small Business Rates

Moving to a SSM will not directly impact residential and small business consumers. Under the current Status Quo, these consumers follow the province-wide Regulated Price Plan (RPP), which has been in place in Ontario since April 2005. The RPP is intended to ensure that consumers are provided with stable and predictable electricity pricing, are encouraged to conserve, and are charged prices reflecting the costs paid to generators.

The legislation underpinning the RPP requires that prices set by the OEB reflect the cost of supply over time. For this reason, should the Market Renewal project succeed at removing the market inefficiencies and complexities outlined in

Section 1.1, then overall cost of supply should naturally decline, and RPP rates should decline proportionally. It is unclear if the Ontario Energy Board (OEB) will

¹¹ With peak demands of 50 kW or more

¹² OEB Market Surveillance Panel (Feb 2018) – Monitoring Report on the IESO-Administered Electricity Markets (for the period from May 2016-October 2016)

continue to require Local Distribution Companies (LDCs) to charge the province-wide RPP prices to residential and small business customers, or if LDCs will be permitted to adjust their residential and small commercial rates to account for their unique zonal wholesale prices.

The most recent RPP Roadmap issued by the OEB in November 2015 does not make any comment on location-based pricing, but future Roadmap publications may provide a signal on OEB's intent as the IESO's high-level design project progresses."⁴

IMPACT ON THE RESIDENTIAL CONSUMER

Most consumers do not differentiate between the various elements of a regular electricity bill received from the Local Distribution Company (LDC). In order to inform rate payers across the Northwest, through their leadership, the CVNW Energy Task Force reviewed two sample electrical bills to identify the full impact of zonal pricing should residential customers be direct beneficiaries.

In the case of Thunder Bay Hydro, which serves the Municipality of Thunder Bay, and using a sample residential customer⁵ with a monthly consumption of 621.98 kWh, the current cost of the electricity is \$52.07. Should zonal pricing be adopted for the Northwest with a benefit of a 36% reduction in the cost of electricity, *and if was directly applicable to residential rates*, it would result in a reduction of \$18.75. The entire bill would be reduced by that same amount, resulting in a 20% decrease in the overall cost of electricity.

Your Electricity Charges	
Balance Forward	-161.61
<hr style="border-top: 1px dashed black;"/>	
Electricity	
On Peak 121.73kWh @ \$.132	16.07
Mid Peak 120.26kWh @ \$.094	11.30
Off Peak 379.99kWh @ \$.065	24.70
Delivery	34.08
Regulatory Charges	2.78
H.S.T. < No. R892090614 >	11.56
8% Provincial Rebate	-7.11
	<hr style="border-top: 1px dashed black;"/>
Total Charges	93.38
Ontario's Fair Hydro Plan saved you \$42.45 on your bill. This includes the 8% Provincial Rebate	

⁴ Third Party Commentary on Zonal Pricing in Northern Ontario, Posterity Group, November 18,2018. Copy of the report is attached as Appendix A

⁵ October, 2018 billing for a Thunder Bay residential customer

Hydro One Networks, which supplies the electricity to the bulk of the Northwest⁶ provides an analysis of their pricing based on a consumption of 1,000 kWh.⁷ The sample bill shows a cost of \$81.80 for electricity. Applying the Posterity Group's calculation to that cost will see a reduction of 36% or \$29.45 if residential customers of Hydro One were to benefit from Zonal pricing in the Northwest. The overall reduction in the bill for 1,000 kWh would be in the range of 20%.

Powering 32 NORTH STREET	
Point of Delivery: 50150150	Residential Medium Density
Electricity.....	\$81.80
This is the cost of generating the electricity you used this period. Usage is measured in kilowatt-hours (kWh) and depends on the wattage of devices you use and how long you use them. The Ontario Energy Board (OEB) sets the cost per kWh and the money collected goes directly to the electricity generators.	
Delivery.....	\$56.62
This is the cost of ensuring you have reliable power when you need it. Hydro One collects this money to build, maintain, and operate the electricity infrastructure, which includes power lines, steel towers and wood poles covering 960,000 sq. km. A portion of this cost is fixed and a portion varies depending on the amount of electricity used.	
Regulatory Charges.....	\$4.45
The Independent Electricity System Operator (IESO) uses this money to manage electricity supply and demand in the province, which is necessary to ensure that there is enough electricity to meet Ontario's needs at all times.	
HST (12345-1234-RT1111).....	\$18.57
8% Provincial Rebate.....	-\$11.43
Total of your electricity charges.....	\$150.01

Challenges to the Sharing of Benefits of Zonal Pricing

As the Common Voice Northwest Energy Task Force has learned over its years in monitoring and offering advice on the electrical system in the Northwest, nothing is ever simple nor is it black and white when it comes to the management of electricity in the province.

Throughout sections of the Posterity Group Report a number of cautions are reported that directly impact the intended results of a nodal or regional price system applicable to the Northwest.

This section will deal with those cautions or outright barriers from the perspective of what the Northwest will require to ensure maximum benefit to the rate payers of the region. We do so in order of their appearance in the Posterity Group Report.

⁶ Except for Fort Frances, Kenora, Atikokan, Sioux Lookout and Thunder Bay LDCs.

⁷ Hydro One Website: <https://understandmybill.ca/explain/residential-tou/2>

Network Changes

The report states that:

“While the historical analysis in Section 2.1 presents the prices that would have been observed under the SSM for the past four years, the prevailing historical condition of constrained generation within Northern zones may not necessarily be representative of conditions in the future. Changes to the network that may materially affect the dynamics of pricing in Northern zones include:

- *Load growth (e.g., new mining operations, connection of remote communities)*
- *Variations in generation (e.g., low-water years, new generation developments);*
- *Infrastructure upgrades that reduce transmission bottlenecks and alleviate congestion;*
- *Upgrades to interties with Manitoba and Minnesota; “⁸*

It is CVNW ETF’s position that zonal pricing will benefit Northwestern Ontario and should be implemented. However, the CVNW ETF support is conditional on the following elements being included in the concept:

1. A fixed-base rate for hydraulic generation must be established.

Not too long ago, the province had "quasi" open-market system for supply and demand. A lot of generation from Ontario Power Generation (OPG), including hydroelectric, was regulated by the OEB as to what price they could charge the system for power. There was a maximum price for OPG but the rest of the market operated on a supply and demand open market system. This particular application was why electricity rates in the province were somewhat restrained and are not a lot higher today. This "restrained pricing" also tended to keep the 'global adjustment' constrained as well (or the average difference between the cost of power to the province and what consumers paid for that power).

If the concept of zonal pricing is approved for the Northwest, then hydraulic generation from assets that have been in place for multiple decades should be priced at cost plus a reasonable rate of return to the owner, whether it be OPG or a private interest. This will maximize the benefit to the ultimate rate payer while at the same time remove the vagaries of a market driven system. This is consistent with the following statement by the IESO:

“ Market Power Mitigation

Market Power Mitigation is used to address instances where lack of competition in an area enables market participants to exercise their “market power” by

⁸ Third Party Commentary on Zonal Pricing in Northern Ontario, Posterity Group, November 18,2018. Copy of the report is attached as Appendix A

either economically or physically withholding energy from the market to increase price. With the alignment of price and dispatch under the SSM, the high-level design recommends an approach that mitigates market power “before the fact” - by adjusting offer prices to their respective, pre-determined reference levels ahead of dispatch - to prevent offers that “fail” the market power test from affecting dispatch schedules and market prices.”⁹

At the same time, and until load matches supply, increased load will not have any impact either positively or negatively on the zonal price.

This is also consistent with the Ontario Energy Board’s statement that

“Consumers are well served if pricing and the standard of service they receive from their energy utilities are fair and reasonable. Energy utilities are well served if they are viable businesses that can sustain the investment needed to deliver reliable service over the long term. This is what we mean when we say our goal is to ensure Ontario’s energy sector is in the public interest, for today and tomorrow.”¹⁰

It is also consistent with the approach that the Ontario Energy Board has used for a number of years in relative to the regulation of natural gas services in Ontario. Rather than relying on the market to determine prices, the OEB determines what the allowable rate of return should be for the distributors of Natural Gas. That results in an ‘effective price’ for the commodity and delivery.

The following chart displays the annual return on shareholders equity for all natural gas distributors in Ontario.¹¹

Financial Item / Metric	2013	2014	2015	2016	2017
Return on Shareholders' Equity (%) ²	12.26%	10.54%	9.31%	8.69%	8.93%

² ROE is calculated as the sum of gas utilities' net income divided by total shareholders' equity.

It is CVNW ETF’s conditional position is that zonal pricing should include hydroelectric generation being priced at cost plus a reasonable return on the shareholder’s equity.

⁹ <http://www.ieso.ca/Sector-Participants/Market-Renewal/Single-Schedule-Market-High-Level-Design>

¹⁰ <https://www.oeb.ca/about-us/mission-and-mandate>

¹¹ 2017 Yearbook of Natural Gas Distributors, August 23, 2018 <https://www.oeb.ca/utility-performance-and-monitoring/natural-gas-and-electricity-utility-yearbooks>

2. A blended rate for all sources of generation must be adhered to.

It is recognized that the Northwest also includes other generation sources – biomass thermal generation (Atikokan GS), Non-Utility Generators (NUGs) and a handful of major solar and wind projects. Each has its own price structure and relationship with the IESO.

It is our understanding that if all of the Northwest's hydraulic generation is utilized and one or more of the other forms of generation within the Northwest or electricity is imported from outside the region, the price of that energy will set the rate for all generators. This will clearly distort the concept of a zonal or regional price forcing it up well beyond the intent of a zonal price.

For the consumer to properly benefit from a zonal price for Northwestern Ontario it is essential that the Ontario Energy Board adopt a blended electrical formula for all electricity generated within the Northwest or imported into the region. The formula would ensure that the majority of the rate is determined by the assigned kWh charge for hydraulic generation.

The following two charts reflect a hypothetical scenario regarding the impact of a blended rate for Northwestern Ontario. Figure 1¹² reflects the change in the blended cost per hour utilizing a single hour. The \$2.19 increase reflects a 14% jump in the price.

Source	Zonal Rate per mWh	MW Output	Cost per hour	Blended Cost/Hour
Hydraulic	\$ 15.26	600	\$ 9,156.00	\$ 15.26
Atikokan GS	\$ 24.00	200	\$ 4,800.00	
		800	\$ 13,956.00	\$ 17.45
			Difference/hour	\$ 2.19
			Percentage Increase	14.3%

Figure 1

¹² The \$15.26 per mWh rate for hydraulic is the zonal price amount identified in the Posterity Report, page 3. The Atikokan GS rate is fictional.

Figure 2¹³, also a hypothetical scenario, is designed to show the blended rate over a much longer term. The 26-cent increase in the cost per hour represents less than a 2 percent increase in the blended rate.

Source	Zonal Rate per mWh	MW Output	Cost per hour	Hours to Run	Total mWh	Total Cost	Blended Cost per Hour
Hydraulic	\$ 15.26	600	\$ 9,156.00	168	1,538,208	\$ 23,473,054	\$ 15.26
Atikokan GS	\$ 24.00	200	\$ 4,800.00	10	48,000	\$ 1,152,000	
		800	\$ 13,956.00	178	1,586,208	\$ 24,625,054	\$ 15.52
						Difference/hour	\$ 0.26
						Percentage Increase	1.7%

Figure 2

Without a blended rate, the Northwest will not receive the full benefit of a zonal or regional price nor of the natural resources that are found within the area. Only a blended zonal rate will ensure that electricity pricing can function as a true economic development tool.

It is CVNW ETF’s conditional position that a zonal price for Northwestern Ontario should be based on a blending or averaging of the actual cost of acquiring electricity for the region.

3. Blended Price should be based on an annual roll up of input costs

In order to ensure some certainty in the rates to be charged to the individual rate payer¹⁴ the blended zonal price should be based on a full year of costs as paid to provide the electricity to the Northwest. In the first year, the IESO should project what the rate will likely be and include a mechanism for adjustment on a quarterly basis based on actual performance in the prior three months.

Subsequently, the blended zonal price, should include an adjustment mechanism that will apply any shortfall in the prior year’s rate to the upcoming rate year.

It is CVNW ETF’s conditional position that the blended zonal price should be based on annual costs.

4. Load growth should not force the zonal price upward

Common Voice Northwest’s Energy Task Force continues to make the case that load growth in the Northwest will occur over the next ten or more years. Our recent analysis¹⁵

¹³ The \$15.26 per mWh rate for hydraulic is the zonal price amount identified in the Posterity Report, page 3. The Atikokan GS rate is fictional.

¹⁴ Individual in this case includes residential, commercial, industrial and institutional customers.

¹⁵ August 13, 2018

indicates load growth of 500 MW by 2025, through the opening of new mines, forest processing facilities and the connection of the remote First Nations to the grid. The Northwest should not be arbitrarily punished through an increased zonal price by allowing the market itself to set the price. The combination of a zonal price and a blending formula as noted previously in this submission, will ensure that the zonal price will be reflective of all input costs, including the costs of any imports.

It is recognized that once the full capacity of the Northwest's hydraulic generation system has been met and that other sources of energy – from the Atikokan Generating Station, renewables scattered throughout the region, NUGs and imports from outside the region – are used to meet the demand, that the overall zonal price will rise. It is assumed that these other sources of energy will cost more on a kWh basis than the regions own hydraulic generation.

It is CVNW ETF's conditional position that load growth itself should not be allowed to force up the blended zonal price.

5. Impact on Existing Contracts

There are a range of long- and short-term contracts, including wholesale rates, in effect between the suppliers of electricity and the ratepayer. This includes residential customers with retail contracts, conservation type contracts and industrial pricing programs.

- A) Section 3 of the report provided a further analysis in terms of changes to Commercial and Industrial rates:

“Commercial and Industrial Rates

The move from uniform pricing to zonal wholesale pricing will directly impact large direct-connect customers and LDCs, as they will pay wholesale zonal prices under the proposed SSM. In the Northern zones of Ontario, zonal prices are anticipated to be lower than the prices resulting from the existing two-schedule market design.

It is not certain what the impact of the SSM will be to commercial and industrial customers¹¹ *within LDC service territories* who currently pay wholesale rates through the uniform Hourly Ontario Electricity Price (HOEP). The OEB has not made any public comment on the specifics of the proposed SSM aside from stating their general support for Market Renewal and providing assistance to the IESO in moving to the high-level design phase of the project¹². The recent documentation submitted to OEB's current consultation on Rate Design for Commercial and Industrial Customers¹³ does not appear to address the

possibility of zonal pricing and focuses instead on distribution rate design not affected by the SSM.”¹⁶

It is CVNW ETF’s conditional position that where the existing contracts require a rate per kWh greater than what the blended zonal price is, the IESO/OEB should find a mechanism that will offset the difference in the rate. If no offset is available, the holders of those contracts should be so advised, and notice given that at the end of the existing contract, they should bear in mind the blended zonal rate.

The OEB is asked to support this position.

B) Section 3 of the report provided a further analysis in terms of changes to residential rates:

“Residential and Small Business Rates

Moving to a SSM will not directly impact residential and small business consumers. Under the current Status Quo, these consumers follow the province-wide Regulated Price Plan (RPP), which has been in place in Ontario since April 2005. The RPP is intended to ensure that consumers are provided with stable and predictable electricity pricing, are encouraged to conserve, and are charged prices reflecting the costs paid to generators.

The legislation underpinning the RPP requires that prices set by the OEB reflect the cost of supply over time. For this reason, should the Market Renewal project succeed at removing the market inefficiencies and complexities outlined in

Section 1.1, then overall cost of supply should naturally decline, and RPP rates should decline proportionally. It is unclear if the Ontario Energy Board (OEB) will continue to require Local Distribution Companies (LDCs) to charge the province-wide RPP prices to residential and small business customers, or if LDCs will be permitted to adjust their residential and small commercial rates to account for their unique zonal wholesale prices.”¹⁷

It is important to recognize that low electrical rates in Northwestern Ontario will assist the region in attracting new industry and workers. Currently, over 1,000 workers a year will be retiring, and the region must attract new residents in order to sustain current private sector and public sector services. Lower energy costs will assist in the attraction and retention of both the workforce and in the entrepreneurs the region requires going forward.

¹⁶ Third Party Commentary on Zonal Pricing in Northern Ontario, Posterity Group, November 18, 2018. Copy of the report is attached as Appendix A

¹⁷ IBID

It is CVNW ETF's conditional position that residential and small business consumers must directly benefit from a blended zonal price for Northwestern Ontario. The Ontario Energy Board requirement that Local Distribution Companies (LDCs) must charge the province-wide RPP prices to residential and small business customers should be replaced with permission for the LDCs to adjust their residential and small commercial rates to pass through the benefit of a blended zonal price to their rate payers.

6. Scheduled review of the blended zonal pricing

Once implemented a blended zonal pricing regime must be continually monitored with annual reports to key stakeholders in the Northwest. It would be appropriate that after five years of the blended zonal price being in operation that a formal evaluation occur. This review should include some form of public session bringing together representatives of the LDCs, Economic Development Offices, Municipalities, Industry and Business representatives along with Common Voice Northwest.

The focus of the review should include the following elements:

- A) Review of the rates along with the input costs
- B) The impact on the cost of living of the region
- C) Industry growth as a result of the regional blended zonal price
- D) Regulatory changes throughout the 5 years that have impacted the blended zonal price
- E) Recommendations for the next five years.

It is CVNW ETF's conditional position that after five years of the application of a blended zonal price that a formal analysis and review occur.

In addition, should the blended zonal price rise to the point where it matches the average price across the rest of Ontario a formal review of the concept should occur in order to identify ways in which the pricing structure can be reduced for Northwestern Ontario.