

Northern Pulp and Paper Electricity Transition Program Backgrounder



Issue:

In November 2006, Premier Dalton McGuinty announced a three-year \$140 million energy rebate plan for large electricity customers in the Ontario's northern pulp and paper industry.

Background:

Electricity is a major operating cost for northern Ontario pulp and paper mills. Companies have long argued that rising energy costs, compounded by falling prices and the strong Canadian dollar, have adversely affected profitability, leading to mill closures and job cuts.

One of the ways the Ontario government has responded to this concern is by implementing the Northern Pulp and Paper Electricity Transition program. The program will provide quarterly electricity rebates for northern pulp and paper mills that purchase a minimum of 50,000 megawatt hours (MWh) of electricity annually. The program is designed to be a transitional measure intended to provide assistance to companies while they make efforts to reduce costs by improving their energy efficiency.

Consumption and pricing information provided by the IESO, supplemented by government analysis, indicates that these rebates could reduce electricity costs of the participating companies by 15 percent over the next three years. More specifically, the program will provide quarterly rebates amounting to \$11 per MWh in the first year, \$10 per MWh in the second year, and \$7 per MWh in the final year. The rebate will be capped at 1,000,000 MWh per company per year and will be reduced if the weighted average annual Hourly Ontario Energy Price (HOEP) is below \$46 per MWh.

With the permission of the participating companies, the IESO will support the implementation of the program by providing each participating company's consumption data to the government so quarterly rebates can be calculated. The IESO will provide additional assistance on an ongoing basis as necessary.

In conjunction with the announcement of the rebate program, the Premier told the Canadian Press that the government had looked into regional pricing or electricity, but decided against it.

"It does not provide the benefits that some had expected that it might," he said.

As a result, the government has decided against implementing a regional pricing structure for the Northwest.

The IESO will continue its locational marginal pricing work with the objective to improve our analysis so we are better positioned for future consideration of pricing alternatives than our current analysis allows. This is consistent with Ken Kozlik's presentation at the November Stakeholder Advisory Committee to continue locational pricing analysis at a measured pace.