

LONG-TERM ENERGY STRATEGY NEEDED FOR ECONOMIC STABILITY

Timmins Chamber of Commerce Policy

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Issue

The price of energy has been climbing rapidly relative to the United States and other Canadian provinces since Ontario's market restructuring in 2002. Next to Alberta, Ontario has the most expensive electricity rates in Canada. In 2007, industrial rates for Ontario were \$72.61 per megawatt hour (/MWh), in stark contrast to our neighbouring provinces, Manitoba and Quebec, at \$31.30/MWh and \$43.72/MWh, respectively. Energy must be used as an economic development and retention tool, and an energy strategy must be developed and implemented to ensure Ontario's competitiveness by creating a more stable environment for industry and overall community development.

Background

Ontario energy costs are second highest in Canada and the province risks becoming the highest energy cost jurisdiction in North America. In 2007, Ontario electricity rates averaged \$72.61/MWh putting Ontario industry at a distinct and growing competitive disadvantage relative to other Canadian provinces and the United States. Already Ontario industries are hit hard by the recession, the unemployment rate has reached 9.6%, and Ontario faces more layoffs as energy-intensive industries strive to find ways to cut costs in the face of repressed markets and decreased demand for their products. Amplified by current economic conditions, Ontario's energy costs leave few viable options for expanding, or in some cases continuing, operations in Ontario when hydro prices are 40% lower in Quebec and 60% lower in Manitoba.

Mining and forestry are longstanding, vital, northern Ontario industries with greatest reliance on energy, the high cost of which has caused many operations across the north to enter into financial protection; drastically reduce their workforces; cancel new projects; and/or transform their business operations.

The forest industry in Ontario continues to struggle with the consequences of market impacts and the US housing crisis causing low prices and low demand. The wood and paper products industry is anticipated to contract again in 2009 for the fourth consecutive year, which is expected to result in the forestry and logging industry GDP shrinking by 6.3%. While market forces contribute greatly to the closure of the mills, the high cost of energy remains a hindrance to the long-term viability and regeneration of the forest industry in northern Ontario. The Ontario Forest Industries Association (OFIA) and Northwestern Ontario Municipal Association (NOMA) have been lobbying the provincial government for some time with regard to the serious impacts that increased energy prices have had, and continue to have, on this sector.

In January 2006 the Northern Ontario Large Urban Mayors (NOLUM), representing the six largest communities in Northern Ontario (Kenora, Thunder Bay, Sault Ste. Marie, Timmins, Sudbury and North Bay) proposed regionalization of electricity pricing for northern Ontario, whereby industries and individuals could purchase electricity based on a rate that blended the lower production and delivery cost systems, rather than using a southern Ontario demand price system. They demonstrated that 30% of the province's electricity needs could be supplied by exporting electricity from northern Ontario. NOLUM requested the findings from their report entitled, "Energy Supply Mix for the Province of Ontario" be adopted by the province when they met with the Ministry of Energy in March, 2006.

The mining industry, which previously offset the downturn in the forest industry, is now facing low zinc, nickel and other base metal prices as well as fluctuating markets, and unlike in the past, the drop in demand is not anticipated to be cushioned by a weak Canadian dollar.

As of June 2009, the unemployment rate in Canada reached 8.6% largely the result of job losses in manufacturing, mining, forestry and related industries in Ontario, Quebec and British Columbia. Ontario's unemployment rate reached 9.6% by June 2009, surpassing the national rate. Announcements of large-scale lay-offs in northern Ontario have become commonplace: Xstrata's Sudbury operations announced the

permanent lay-off of 686 employees, approximately one-third of its Sudbury workforce; Vale Inco announced lay-offs for over 350 employees, affecting all of its Canadian operations, three of five being in Ontario; one forestry company, Tembec, implemented a number of temporary and permanent lay-offs and shut-downs, including the permanent closure of its Mattawa sawmill and the temporary closure of its Kapuskasing sawmill.

These industries operate in a global marketplace and operating costs are a strong determinant when selecting locations to remain in operation and for new investments. Energy represents more than one-third of operating costs for some manufacturers, and it is estimated that large consumers, such as Xstrata Copper's Kidd Metallurgical zinc refinery in Timmins, face a cost disadvantage of \$15-20 million per year compared to competing plants in our neighbouring provinces. This plant directly employs 300 people and its potential loss would have a devastating effect on the Timmins economy considering an indirect impact estimated at 1200 lost jobs using the industry standard multiplier of 4. While high energy costs have been perceived as a big business issue many smaller manufacturers are also adversely affected. In the past year for example, Norfab Metal, a Timmins-based machine shop with 30 employees, spent approximately \$65,000 on energy costs, their third-largest cost behind only materials and payroll.

Despite numerous and startling economic challenges, energy rates continue to climb. In February 2009, energy rates increased by an average of 2.5% for small business. In addition, distribution rates increased in May, further raising energy costs for all consumers, large and small.

Provincial programs designed to come to the aid of forestry and other sectors, while helpful in their own rights, provide little more than a band-aid solution for the underlying issue posed by Ontario's rising cost of energy. These programs may be good for the short term for certain portions of industry, but do not provide the long term energy strategy needed to ensure economic stability for industry and communities. To address the energy issue, the current provincial government plans to offer capital assistance programs with the objective of industry lowering energy consumption. However, many industries have already undergone assessments, equipment changes and retrofits in the interest of their own competitiveness. This type of measure, while welcome, is not enough. We must demonstrate that our province is indeed "Open for Business" and concerned about the costs of doing business in this jurisdiction.

In the interest of readying Ontario to take advantage of opportunities stemming from economic recovery, and to ensure the health of new and existing businesses that are part of our future,

We recommend that the Ontario government:

1. Use energy prices as an economic development enabler by committing to the creation of a long-term energy strategy with an implementation date not to exceed five years.
2. Fix energy prices at, or provide financial incentives that would make expenditure on energy equivalent to, \$45 per megawatt hour, thereby providing a stable economic environment for Ontario industries and communities in the interim period while a clear, long term strategy is being developed for improved electricity generation and transmission.