

ENABLING CORPORATE RENEWABLE ENERGY PROCUREMENT ACROSS CANADA

spreading the benefits

Alberta is enjoying a corporate renewable energy boom that is unique in Canada...so far. Alberta's open and competitive electricity system enables these deals by default because it allows companies to choose their electricity supplier, including buying under long-term contract.

Other systems in Canada pose some structural or policy barriers to these types of deals, most commonly because only **VERTICALLY INTEGRATED UTILITIES** are allowed to sell electricity to consumers (sometimes called "exclusive franchise" or "regulated electricity systems").

In practice, many, if not most, jurisdictions with vertically integrated utilities have begun to contract power from independent power producers (IPPs), often through competitive procurements for long-term power supply agreements. However, the utility typically retains its exclusive franchise and controls the opportunities for IPPs to own and supply electricity through the utility's vertically integrated system, unless the government or utility regulator opens the franchise up to competitor IPPs.

In Canada, most provinces' grids are dominated by vertically integrated utilities, with the exception of Alberta and Ontario. This means corporations can't buy renewable energy directly from generators, and generators can only earn revenue from their energy production if they can sell it to the utility in that jurisdiction.

This clashes with the growing desire of many large commercial, industrial and institutional buyers who want to use renewable energy generated in the same grids where they use it, bolster the credibility of their renewable energy consumption claims and provide a more valuable hedge against rising costs from emitting, default grid power.

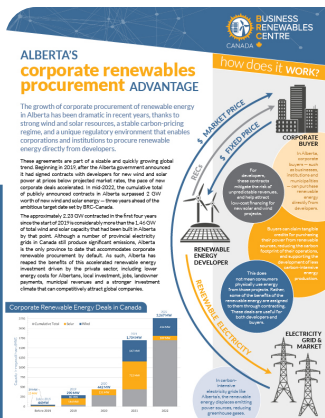
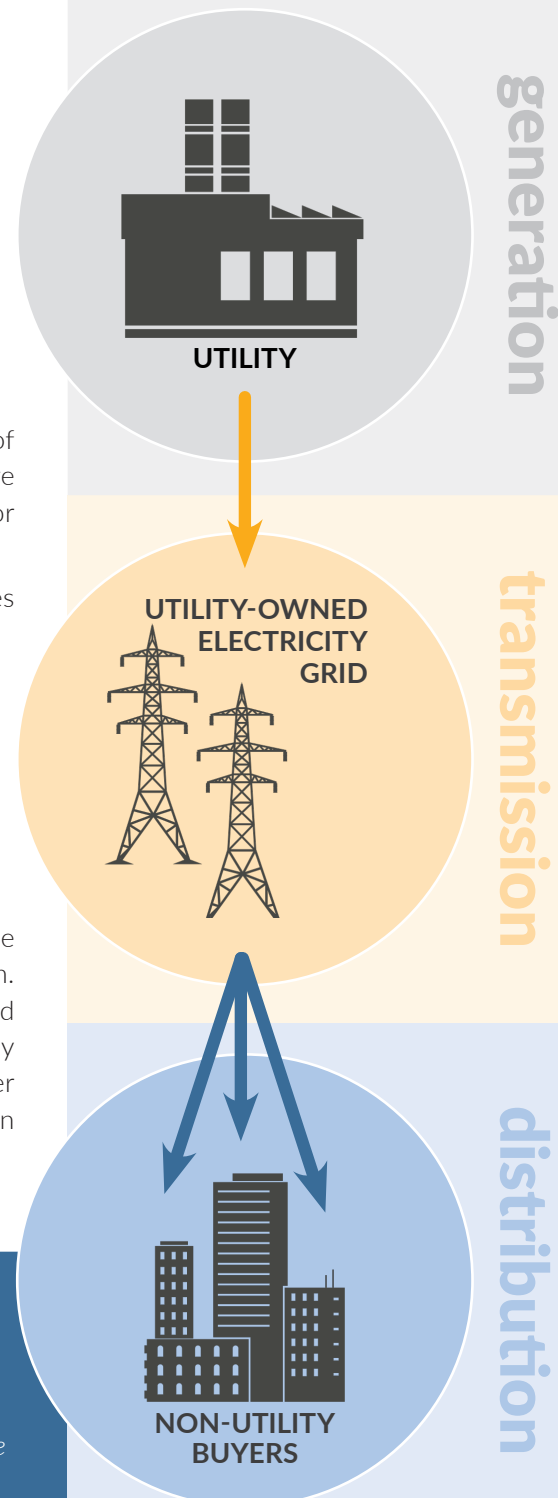
fact sheet SERIES

How is Alberta reaping the benefits of the renewable energy boom?

Check out the companion fact sheet *Alberta's Corporate Renewables Procurement Advantage* to find out!

what is a VERTICALLY INTEGRATED UTILITY?

The typical vertically integrated utility is a regulated monopoly that owns all levels of the electricity supply chain.



Ontario: Solutions Wanted



Out-of-market contracting and the global adjustment charge

While Ontario has a wholesale energy market and customer retail choice, the system operator has entered long-term, out-of-market (i.e., insulated from the market price) contracts with a variety of generators. These remove value from the energy market by paying set, long-term rates to most generators, so that the market price does not reflect the actual all-in costs of energy production.

Ontario's system operator recovers the costs of these above-market rates through a "global adjustment" charge on all customers. Under existing policies, companies are not able to contract out of the global adjustment charges, which are typically more than three times the energy costs.

As a result, new generators only receive the artificially low market energy price. Together, this makes corporate renewable procurement infeasible in practice: generators don't get a fair price in the market and buyers would end up having to pay more to cover the costs of new solar and wind.

Regulated markets are not showstoppers

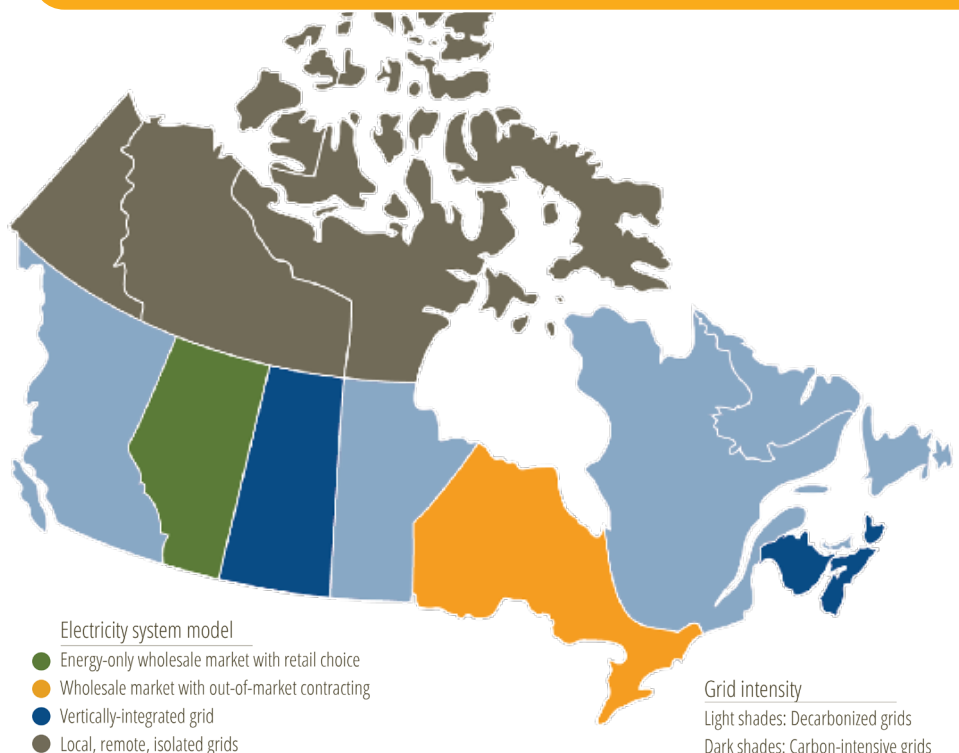
Nothing about these other provinces' systems, however, makes them inherently incompatible with corporate renewable energy procurement opportunities.

At its core, when commercial, industrial or institutional electricity consumers want to reduce the emissions associated with their electricity use by securing renewable energy under long-term contract, they need access to just two basic opportunities:

1. **to credibly displace their grid electricity use with renewable energy; and**
2. **a fair displacement of, or credit against, grid energy costs, including carbon price exposure.**

In the United States, jurisdictions looking to harness the opportunities of corporate renewables have demonstrated effective policy solutions and programming innovations. Different iterations of "green tariffs" have allowed American states to attract new investment – from both renewable energy developers and job creators with environmental, social and governance (ESG) mandates – and could do the same in Canada's other emissions intensive electrical grids: Saskatchewan, Ontario, Nova Scotia and New Brunswick.

With the right programming and policies, any jurisdiction can create these key conditions, no matter the regulatory design of their system.



Policy and program mechanisms to enable corporate procurement

In many U.S. states with vertically integrated or exclusive franchise systems, governments are eager to accommodate businesses with ESG commitments because it means attracting their investment and job creation. Utilities and ratepayers also see the opportunity for these large customers to share in paying for grid costs. With these major stakeholders aligned, these jurisdictions are generating a broad range of policy innovations to enable corporate renewable energy procurement.

The details vary, but the core elements of any such policy or program are to provide commercial, industrial and institutional buyers the opportunity to contract long-term for:

1. **A supply of environmental attributes** (renewable energy certificates and/or emissions offsets) from new renewable energy projects; and
2. **A credit against energy and carbon charges** related to the grid electricity consumption the buyers displace by buying alternative renewable energy.

In return, the buyers pay a specific “green tariff” for the energy price contracted with the **RENEWABLE ENERGY DEVELOPER** and a fair allocation of costs for system access and integration of the new renewable energy generator. The latter is set to ensure these costs are not imposed on the rest of electricity consumers (the broader rate-base) and are typically set and reviewed through regulatory rate hearing processes.



By satisfying their customers and investors who expect attainment of ESG goals, **BUYERS** can continue to operate and invest to grow their operations in the province or state that enables their renewable energy purchasing.



The host **COMMUNITIES** get multiple benefits:

- economic development from new renewable energy investment (including construction jobs, operation and maintenance jobs, land lease payments and municipal tax revenue
- **community employment and economic benefits that come with the buyers' operations**



The **RATEPAYERS** benefit too, with:

- low-cost “null” power (physical electricity remaining after the environmental attributes are provided to the buyer) that displaces power from conventional generation with higher operating costs (from fuel, and carbon costs), and
- the large commercial and industrial consumers share in the grid costs, **making the whole system less expensive for everyone.**

All of these benefits are up for grabs. Any jurisdiction with system barriers just needs to decide that it wants to confront them, and then it can choose from a menu of policies and programs to remove those barriers.