Undertaking (Transcript pages 7757)

THE CHAIRPERSON: Gentlemen, you belong to companies that are large and have a number of different locations. So what I'd like to do is ask the same question to each of you. So if you could sort of canvass. And I will put it this way.

The question I would ask is: What is your percentage of expenses in Manitoba for electricity? What is your expenses for electricity on a percentage basis at your other plants? How does your electricity costs compare to your competitors? And then the final area is what Ms. Kapitany was on is time of use, whether your other plants use time of use, your experience there, and whether your competitors use time of use.

Response:

In reference to the above request, Chemtrade had already provided its percentage at transcript page 7762 ("So the percentage is going to be around 70 percent for manufacturing variable cost").

Koch Industries has internally determined that the requested information is confidential and respectfully, is unable to provide to the PUB.

Maple Leaf Foods has provided the following information:

In reference to slide 7 of the Maple Leaf Foods presentation, reporting Agristats information for 26 North American Primary Processors, which reported utility costs on a per kill (or per hog) basis, comparing Maple Leaf Foods Brandon plant (MLF – shown as green bars '6705') with the Top 25% of facilities aggregate (red line) as well as Canada and US averages. For 2016/17 electricity costs in the form of $/hog, the following information has been provided from Agristats:

- Top 25%: $0.86/hog
- Top 50%: $1.00/hog
- Maple Leaf Foods (Brandon, MB): $1.35/hog

Maple Leaf Foods was also able to calculate electricity costs as a percentage of total overhead budget for 2018 for its Brandon, MB plant and for its Lethbridge, AB plant. The Lethbridge plant was chosen as the plants have comparable functions and processes (primary processing facilities). Maple Leaf Foods plants in Ontario, for example, have significantly different food preparation processes so plant costs are much different. Of note, the scale of the Manitoba plant is much larger and more energy intensive than that of the Alberta plant on a total cost basis. As a result, plant operations are not easily comparable.

- Brandon, MB plant electricity cost percentage (as percentage of total 2018 budget overhead costs): 7%
- Lethbridge, AB plant electricity cost percentage (as percentage of total 2018 budget overhead costs): 4.7%

In regard to electricity cost comparison to competitors and the attributes of the energy they use, the representative of Gerdau Long Steel North America, Mr. Darren MacDonald, wanted to note that in a globally competitive space, such as the supply of steel within and outside of Manitoba, Gerdau is losing business to competitors based on overall pricing, while selling as competitively as possible within its cost structure. Any increase in costs that are local to Manitoba such as the proposed hydro increases or the impact of the Carbon tax will increase Gerdau's costs and decrease market share. With the green nature of the Manitoba electricity grid, there is no "greener" steel than that made in Manitoba.

Time-Of-Use rates are a very common rate structure all over North America and in deregulated States or Provinces are the status quo. For example, in Ontario if you wished to operate during lower priced hours, you would simply shift production to maximize the off-peak production, thereby achieving a lower average cost of production, and improved competitiveness. In Manitoba it is currently not possible to manage costs in this manner as these is rate incentive to move load to the off-peak. Over the longer term, signals to move load off-peak could flatten Manitoba Hydro's load profile allowing 1) more export availability during on-peak (higher value) hours and 2) allow plants that are not 100% sold out to consume the lower cost off-peak energy. Ideally Gerdau would like to operate 7 days a week, 24 hours a day, but since steel is a cyclical business, TOU rates provide an opportunity to manage costs during market downturns.