



Backgrounder

April 12, 2006

May 1, 2006 Electricity Prices

Highlights:

- New Regulated Price Plan (RPP) prices are 5.8 cents per kilowatt hour up to a certain threshold per month and 6.7 cents per kilowatt hour above that threshold.
- For residential consumers, the monthly threshold for the lower price is set at 600 kWh per month during the summer season, from May to October and at 1,000 kWh per month for the winter season of November to April.
- For non-residential consumers, the threshold remains at 750 kWh per month for the entire year.
- The RPP affects residential and small business consumers.
- Consumers currently buying their electricity from a retailer (or who recently signed a new contract) and are paying their contract price will continue to do so.
- About half the increase in RPP pricing results from the variance between the forecast price paid by consumers and the actual cost of supplying that electricity.
 - The summer of 2005 was the hottest summer experienced in Ontario in the past 30 years, which led to increased electricity demand.
 - Lower water levels also reduced electricity output from hydroelectric plants and forced Ontario to buy electricity from more expensive sources of power such as natural gas-fuelled generation.
 - Higher than anticipated prices for natural gas, which is used to generate electricity, also contributed to the large variance.
- The remaining half of the RPP price increase is the forecast cost of supplying electricity to RPP consumers over the next year.
- The Board will review RPP prices more frequently and reset them every six months if necessary.
- Specific hours for time-of-use pricing periods are defined for utilities that have both systems and meters capable of tracking and reporting hourly electricity use and have implemented TOU pricing. (**On-peak price** = 10.5 cents per kWh, **Mid-peak price** = 7.5 cents per kWh, **Off-peak price** = 3.5 cents per kWh)
- Distribution rates, which are also changing, will vary from utility to utility to cover the cost of delivering electricity by local utilities to consumers' homes or businesses.

Background The Regulated Price Plan (“RPP”) affects residential and small business consumers who use under 250,000 kWh/year and who buy their electricity commodity from a utility. These consumers are charged a regulated price for the electricity they use. The Board set these prices based on a forecast of the expected cost to supply RPP consumers from May 1, 2006 to April 30, 2007.

Electricity prices under the RPP are affected by a number of factors. Among them are: the amount of electricity produced by generators that are paid regulated or capped prices, market prices for electricity paid to other generators, natural gas prices (used as a fuel by some generators) and the weather.

Price impact Since April 1, 2005, consumers have paid less for the electricity they have used than the actual cost paid to generators.

This shortfall along with the electricity price forecast for the next 12-months means that starting May 1st, residential consumers will pay 5.8 cents per kWh of electricity consumed up to a certain threshold per month and 6.7 cents per kilowatt hour for consumption above that.

Threshold The threshold for residential consumers is 600 kWh during the summer season (May 1 to October 31) and 1000 kWh during the winter season (November 1 to April 30). This difference recognizes the fact that consumers use more electricity for lighting and indoor activity in the winter and that many Ontarians are reliant on electricity as their heating source.

The price threshold for non-residential consumers stays at 750 kWh per month throughout the year.

Variance Account The Board forecast that the cost of supplying all RPP consumers for the past 12 months would average just over 5.3 cents per kWh. However, an analysis report for that period ending February 28, 2006 indicates that the cost of supplying these customers was actually about 5.9 cents per kWh, or around 11% higher than expected. While RPP customers have paid about \$3.7 billion since April 1, 2005 for the electricity they used, it has actually cost closer to \$4.1 billion to supply them for the same period. This has left a net shortfall of approximately \$377 million in the variance account, which tracks the difference between what consumers have paid and what has been paid to generators.

Affecting Factors About half the increase in RPP pricing results from the variance between the forecast price paid by consumers and the actual cost of supplying electricity over the last year. The summer of 2005 was the hottest summer experienced in Ontario in the past 30 years, which led to increased electricity demand. Lower water levels also reduced electricity output from hydroelectric plants and forced Ontario to buy electricity from more expensive sources of power such as natural gas. Higher than anticipated prices for natural gas, which is used to generate electricity, also contributed to the large variance.

The remaining half of the RPP price increase is the forecast cost of supplying electricity to RPP consumers over the next year. The new forecast indicates those costs are expected to increase primarily because of an increase in the price of natural gas relative to last year’s forecast for the RPP.

**For more
information**

Details on today's announced electricity prices are available via the Board's Web site at www.oeb.gov.on.ca.

The Ontario Energy Board regulates the province's electricity and natural gas sectors in the public interest. It envisions a healthy and efficient energy sector with informed consumers, and works towards this vision through regulatory processes that are effective, fair and transparent.

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For more information please contact:

Paul Crawford
Ontario Energy Board
(416) 440-7607