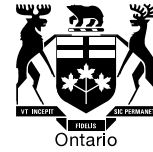


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Backgrounder

April 12, 2006

2006 Electricity Distribution Rates Backgrounder

Highlights:

- The OEB released distribution rate Decisions for 65 electricity distribution companies on Wednesday, April 12
- These electricity distribution companies serve approximately 80% of the consumers of the province
- Rate changes for decisions released April 12, 2006 take effect May 1, 2006
- These rates are the result of the first cost of service review since the 1999 base year for 2001 rates
- 8 utilities did not apply for distribution rate changes
- The rate changes/increases reflect a number of factors:
 - Pension holiday for some utilities started in 1999 ended in 2003
 - Regulatory costs have increased
 - New capital and operational expenditures are required as a result of customer growth
 - The need to replace aging capital assets
- Total bill impact will be a decrease in distribution rates for approximately 34% of residential consumers while the majority remaining will see a moderate increase of less than 5% (Based on a residential consumption level of 1,000 kWh per month)
- For most consumers, the total impact of the RPP prices and distribution rates announced today will be in the range of 3% to 15% on their total bill. The increase in the RPP price is the same for all consumers and accounts for the largest share of the impact for most consumers. The range in bill impacts is due to the variation in distribution rates across the various utilities
- The regulated rate of return for utilities has dropped from 9.88% to 9%

Background Electricity distribution rates are designed to cover the costs incurred by the utility to distribute electricity to individual homes and businesses within the service territory. These rates include the costs charged to local utilities for high voltage transmission services provided predominately by Hydro One Networks. Distribution rates do not cover the cost of generation of electricity, that is, the electricity commodity itself. They also do not include the cost of the Debt Retirement Charge which is set by the Government of Ontario to pay down the stranded debt of Ontario Hydro or the Regulatory Charge which covers the costs of administering the wholesale electricity system and maintaining the reliability of the provincial grid.

The Board reviews each rate application independently and decides which costs it will allow utilities to recover in rates.

Distribution rates were last set on a comprehensive basis in 2001, based on 1999 costs. At that time the costs the Board allowed utilities to collect was phased-in over three years, but that phase-in was delayed by a rate freeze. For most utilities this is the first time in 4 or 5 years they have been allowed to adjust those costs.

What are Distribution Rates Electricity rates set by the Board recover two types of costs – the cost of delivering electricity and the cost of generating energy. Distribution rates reflect an individual utility's cost of service and includes transmission and local delivery costs. Distribution costs change for the same reasons as other costs, that is, because of inflation and the need to invest in distribution assets, such as wires, meters, poles and to service these lines to ensure safe and reliable service. The Board last set the approved distribution costs for recovery in utility rates five years ago. The last rate increase was not implemented until 2005 due to the Government rate freeze during 2002 to 2005. The change in costs proposed by the distribution utilities represents the first overall review of costs for most utilities since 2001.

Distribution rates reflect an individual utility's cost of service and include the costs of assets used for distribution, debt costs, operations & maintenance costs, and a rate of return on equity which provides a regulated rate of return to the owners of the utility (in most cases the municipal government). Factors that contribute to distribution rates include age and condition of assets, geographic terrain and distance, population density, and the cost of labour. For example, utilities serving new growing communities will have a newer distribution plant which requires less ongoing maintenance. Servicing lines is affected by such things as whether a plant is underground or overhead. The proportion of residential to commercial and industrial consumers can also account for cost differences among utilities.

Distribution rates are passed on to consumers on a cost recovery basis and include a regulated rate of return.

Effective Date For those utilities that applied for 2006 electricity distribution rates which were announced today, these rates will take effect May 1, 2006, and remain in place for a year. For those utilities that did not apply or had their applications delayed, rates will remain the same until these applications are considered by the Board. Eight utilities did not apply to change distribution rates on May 1, 2006.

Bill Impacts Distribution rates vary from utility to utility. Different utilities apply for different

costs to be recovered in distribution rates. The Board reviews each application independently and decides which costs it will allow a particular utility to recover in rates. Based on a residential consumption level of 1,000 kWh per month, the impact on the total bill will be a decrease in distribution rates for approximately 34% of residential consumers while the majority remaining will see a moderate increase of less than 5%.

For those utilities that did not apply or had their applications delayed, rates will remain the same until these applications are considered by the Board. Eight utilities did not apply to change distribution rates on May 1, 2006.

For most consumers, the total impact of the RPP prices and distribution rates announced today will be in the range of 3% to 15% on their total bill. The increase in the RPP price is the same for all consumers and accounts for the largest share of the impact for most consumers. The range in bill impacts is due to the variation in distribution rates across the various utilities

Many factors contribute to the varying distribution rates between utilities including age of assets, geographic terrain and distance, population density, and labour costs. The distribution rate changes reflect the individual utility's cost of service.

Process

To assist utilities in their submissions and to ensure a consistent approach, the Board developed generic filing guidelines and an Excel-based model that calculated the rates. Board guidelines established which of the distribution expenses incurred by a utility are allowed to be recovered and established criteria for excluding expenses related to certain activities.

All but three distributors (Hydro One, Toronto Hydro, and Hydro Ottawa) used the Board's model for their applications.

Public Participation

Utilities were required by the Board to place a Notice of Application in the local newspaper with the highest circulation in the utility's service territory. The Notice included an outline of how individuals could participate in the process by intervening, observing, or by letter of comment. Consumer groups such as the Vulnerable Energy Consumers Coalition, Consumers Council of Canada, Schools Energy Coalition, Green Energy Coalition, Energy Probe and others participated in the process. More information about the Board's public hearing process and how you can get involved, can be found on the Board's Web site at www.oeb.gov.on.ca. Under the "Communications" link on the home page, go to "Factsheets and Brochures", then "The Public Hearing Process."

Next Steps For utilities with special circumstances that did not apply or had their applications delayed for other reasons, rates will remain the same until these applications are considered by the Board. The Board will work to finalize their rates as soon as possible.

For 2007 rates, the Board will work towards ensuring various rate classes pay rates that reflect the cost of providing service to their particular rate class.

For more information Details on 2006 Electricity Distribution rates announced today 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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