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## 2006 Electricity Distribution Rates FAQ

### 1. What is the process for 2006 rate applications?

Local electricity distributors, or “utilities”, must receive approval from the Ontario Energy Board for the rates they charge their customers. The 2006 rate applications are for the utility’s distribution rates effective May 1, 2006. Distribution rates are included under the “Delivery” line of your electricity bill and include the cost of both the transmission and local delivery of the electricity to your home or business. Utilities apply to the Board for rates to recover their proposed electricity delivery costs from their customers.

Your local utility applied for new distribution rates. Utilities used the Board approved 2006 Electricity Distribution Rate Handbook as a guideline for their filing. The Handbook used 2004 costs as the starting point for rates and allowed utilities to apply for a limited number of adjustments to their 2004 costs. Utilities who applied for rate changes were required to publish a notice of their proposal. The Board bases its decisions on facts or evidence examined during this public hearing process.

### 2. What kind of rate changes will I, as a consumer, potentially see?

Rate impacts vary from utility to utility and depend upon the details included in individual rate applications. 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

Estimated average bill impacts for the various local utilities are available on the Board’s web-site at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

### **3. Did consumers have the opportunity to participate in the distribution rate process?**

Yes. 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. Consumers groups such as the Vulnerable Energy Consumers Coalition, Energy Probe, Consumers Council of Canada, Schools Energy Coalition, Green Energy Coalition and others participated in the process. More information about 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](http://www.oeb.gov.on.ca). Under the "Communications" link on the home page, go to "Factsheets and Brochures", then "The Public Hearing Process."

### **4. What do my electricity distribution rates cover?**

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.

### **5. Why do rates go up every year?**

In fact, for more than one-quarter of residential consumers distribution rates are decreasing this year.

Electricity rates 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, inflation and the need to invest in distribution assets, such as wires, meters, poles and to service 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 due to this change 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 when the utilities used 1999 costs as the basis for their distribution rates.

## **6. Why is there such a range in distribution rates from decreases to increases?**

Distribution rates reflect an individual utility's cost of service and includes 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.

The last time the Board reviewed the revenue requirement for the cost required to run distribution utilities was in 2001. At that time the cost the Board allowed utilities to collect was phased in over three years. For most utilities this is the first time in 4 or 5 years they have been allowed to adjust those costs. It is important to adjust costs from time to time to accurately reflect costs incurred by utilities.

## **7. When will new rates go into effect?**

For those utilities that applied for 2006 electricity distribution rates which were announced on April 12, 2006, 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.

## **8. Will there be any other changes to my electricity bill? When?**

Yes, electricity commodity prices are increasing. Along with the distribution rate change starting May 1<sup>st</sup>, regulated price plan consumers will pay 5.8 cents per kilowatt hour of electricity consumed up to a certain threshold per month and 6.7 cents per kilowatt hour for consumption above that. The threshold for residential consumers is 600 kWh during the summer season (May 1 to October 31) and 1,000 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.

Most residential consumers in Ontario consume, on average, less than 1,000 kilowatt hours per month.

The threshold for non-residential consumers who are eligible for the price plan will remain at 750 kilowatt hours per month throughout the year.

## **9. What is the total average impact to consumer bills?**

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%.

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## **10. Where can I get more information on my Utility's rates?**

You should contact your utility directly for information regarding your rates. The Decisions for individual utilities are posted on the OEB website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

## **11. Is there some kind of rebate or financial help for consumers who are having trouble paying their bills?**

The Ontario Energy Board understands that different consumers have different needs and circumstances. The Board takes the concerns of all consumers seriously and tries to accommodate consumer needs as much as possible by providing sound economic regulation that balances the interests of consumers with the need for a financially viable energy sector

There are several programs and initiatives taking place across the province designed to help those in need of assistance. They include:

1. Share the Warmth, a partnership between local agencies, utilities and private companies to directly purchase heat, energy and water on behalf of families, seniors, terminally ill and disabled persons living at or near the poverty level. For more information go to [www.sharethewarmth.org](http://www.sharethewarmth.org)
2. The Winter Warmth Fund, a partnership between the United Way, Enbridge Gas Distribution and Toronto Hydro that provides financial assistance to help low-income families and individuals struggling to meet all their financial commitments, including their heating bills. For more information visit [http://www.cgc.enbridge.com/G/G04-03\\_warmth.asp](http://www.cgc.enbridge.com/G/G04-03_warmth.asp)
3. The Energy Emergency Fund which provides one-time emergency assistance to help pay utility arrears, security deposits and reconnection fees. For more information visit <http://www.cfcs.gov.on.ca/CFCS/en/newsRoom/backgrounders/040329.htm>

## **12. What is different in 2006 Electricity Distribution Rates from other years?**

The new process involves a complete re-examination of a utility's costs to deliver electricity and whether those costs should be recovered through its distribution rates. Distribution Rates were last set on a comprehensive basis in 2001, based on 1999 costs. Therefore, the applications address changes over this time period.

Board guidelines established which of the distribution expenses incurred by a utility are allowed to be recovered. The guidelines also established criteria for excluding expenses related to certain activities.

See the *2006 Electricity Distribution Rate Handbook* (located on the OEB Web site at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca)) to find out more.

## **13. Why is there a difference in the distribution rates between utilities but the price of electricity is the same from utility to utility? Why can't you directly compare distribution rates from different utilities?**

Consumer bills reflect charges for delivering electricity to homes or businesses and for the electricity consumers actually use. Different utilities apply for different costs to be recovered in distribution rates. The Board reviews each application independently and decides which costs they will allow a particular utility to recover in rates. For more information about the delivery price you are paying, you should contact your utility directly.

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.

The price of electricity, on the "Electricity" line of your bill, reflects the prices paid to generators that produce electricity for consumers' use. The price of producing electricity is different from the price of delivering it to consumers.

## **14. Why did the Board allow utilities to start charging for smart meters when most consumers will not have a smart meter for a few years?**

Given the increased need for electricity in Ontario and the importance of conservation, the Board decided specific funding for smart meters should be included in the 2006 rates for all Ontario utilities. The funding will be important for the development of the technology and will increase the effort by both utilities and technology suppliers.

**15. What is the rate consumers have to pay for smart meters and who will be charging it?**

The Board decided, based on an earlier report regarding the cost of smart metering, that 30 cents per residential customer per month is an appropriate amount to fund smart metering. The revenues and costs of the programs are to be placed in a variance account to track differences between income and spending on the programs. Also, utilities are required to file with the Board, within 90 days, their plan for smart meter investment in the 2006 rate year.

**16. Do these rates include a profit and if so, why?**

Distribution companies are incorporated companies, either municipally or privately owned. The owners of these utilities are entitled to a return on their invested capital. The current rate has decreased from 9.88% to 9%.