

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor, Suite 2701
Toronto ON M4P 1E4
Telephone: 416 481-1967
Facsimile: 416 440-7656

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27^e étage, bureau 2701
Toronto ON M4P 1E4
Téléphone : 416 481-1967
Télécopieur : 416 440-7656



Backgrounder

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OEB Releases Monthly Analysis Report on Electricity Prices

A large gap continues to exist between the amount most Ontario residential consumers have paid for the electricity they've used since last spring and the actual cost to supply those consumers, the Ontario Energy Board said today.

The information comes in the latest monthly analysis report of the Regulated Price Plan (RPP), published today by the OEB.

Under the RPP, consumers are charged a regulated stable price for the electricity they consume. That price was set by the Board based on a forecast of the expected cost to supply RPP consumers from April 1, 2005 to April 30, 2006.

The report examines a number of factors relative to the forecast. 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.

The Board forecast that the cost of supplying all RPP consumers for the term of the price plan would average just over 5.3 cents per kilowatt hour (kWh). However, the new analysis report for the 11-month 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 use, it has actually cost closer to \$4.1 billion to supply them for the same period. This has left a net shortfall in the variance account of \$377.3 million.

The report points out that the price forecast is based on normal weather conditions. In 2005, Ontario experienced the hottest and most humid summer in recent history. The high demand for electricity to cool homes and offices pushed prices up and added 95% of the RPP variance between June and October 2005. The variance represents the difference between what consumers have paid and what it had cost to supply them.

The RPP price is also influenced by the revenue limit that the Ontario government placed on electricity generated from certain Ontario Power Generation (OPG) facilities. OPG's coal-fired generating plants and its unregulated hydroelectric generating plants are subject to this limit. This helped to mitigate price impacts, but less so than would be expected because of lower than anticipated electricity output from these facilities.

For example, low water levels from lack of rain throughout the summer and fall meant OPG's unregulated hydroelectric plants produced 33% less electricity than the OEB forecast for that period. Normally, the large majority of the power generated by these plants is made available during periods of high demand (also known as "peak periods"). According to the report, the lower than expected output from these plants "forced more of the RPP supply to come from more expensive purchases on the spot market (e.g., natural gas-fired generators and electricity imports)." The report also notes that water levels returned to normal levels in December and output from these plants is now 25% lower than forecast.

Since natural gas is used as fuel by some electricity generators, higher than expected natural gas prices also contributed to the difference between the forecast and actual cost of supplying electricity to RPP consumers. This was due to market conditions and to last summer's hurricanes in the U.S. The report says natural gas prices were 31% higher than forecast for the first eleven months the RPP was in effect. This is an important factor because, for every 10% increase in natural gas prices, Ontario electricity spot market prices increase by about 6%.

The variance account balance affects every RPP consumer. When the RPP price differs from the amount actually paid to generators, the difference is tracked by the Ontario Power Authority (OPA) in a variance account.

In early April, the OEB will set new RPP prices that will go into effect on May 1, 2006. The new prices will take into account a new price forecast as well as the variance account balance at that time. Consumers who remain in the plan will see their share of the variance blended into their new electricity price. Consumers who leave the plan, for example, if they sign a contract with an electricity retailer or if they move out of Ontario, will be required to pay their share of the variance account balance upon leaving.

A consumer who uses 12,000 kWh per year (1,000 kWh per month), and who chooses to leave the RPP, would make a one-time payment of \$60.11 based on the current variance. For a consumer who uses less electricity, such as 750 kWh per month, the one-time payment would be \$45.08. These amounts are updated on or around the 15th of each month.

The full "Monthly Variance Explanation" report is available on 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