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## **Backgrounder: How prices for the Regulated Price Plan calculated**

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### **Why did we develop the Regulated Price Plan?**

At the request of the Minister of Energy, the Ontario Energy Board (OEB) developed an electricity price plan that provides stable and predictable electricity pricing, encourages conservation and ensures the price consumers pay for electricity better reflects the actual cost (or the price paid to generators).

Actual market prices for electricity are volatile, fluctuating up and down by hour, day and season. To provide more stable and predictable pricing, and to reduce the exposure for you and other consumers from such frequent fluctuations, the OEB created the Regulated Price Plan in April 2005 and set the stable prices that your utility charges you for the electricity that you use.

The current price is 5.8 cents per kWh for the first 600 kWh used in any month during the summer season (May 1 – Oct 31) and increases to the first 1,000 kWh per month in the winter season (Nov 1 – Apr 30) for *residential* consumers and 6.7 cents per kWh for consumption above that level. For *non-residential* consumers the threshold is 750 kWh per month all year.

For the first year of the Regulated Price Plan, prices remained the same as required by law. Starting in May 1, 2006, and every six months after that, the OEB began to adjust these electricity prices as required. This is necessary because, over the longer term, the stable prices consumers pay for electricity may be different than the prices paid to generators for the power consumers use. Any such difference will be tracked in variance account and blended into prices set by the OEB for the next period.

### **How do we calculate the current prices for the Regulated Price Plan?**

The prices have been determined by the Ontario Energy Board based on a blend of fluctuating, fixed and capped prices paid to generators including the following components over the current 12 months of the plan:

- The Board's forecast of the price of electricity in the wholesale spot market which changes every hour. The forecast takes into account several factors, including hourly changes in demand, expected load (or demand) growth, transmission limitations, planned generator outages and expected generator fuel prices (such as natural gas and coal).

- Fixed prices set by the Government at an average of 4.5 cents per kWh for Ontario Power Generation's (OPG) regulated nuclear and large hydroelectric generation facilities.
- Fixed prices that are paid to private generators under existing long-term power supply contracts with the Ontario Power Authority (OPA).
- Capped prices based on the estimated value of the difference that is expected to result from the Government's decision to extend a revenue limit of 4.6 cents per kWh on most of the electricity produced by OPG's unregulated assets – coal and small hydroelectric generation facilities. This revenue limit is intended to remain in effect for two more years with the revenue cap increasing to 4.7 cents per kWh (May 1, 2007) and then 4.8 cents per kWh (May 1, 2008).

Fixed prices that will be paid under any future contracts with the OPA for electricity generation supply from renewable and other resources, including demand management, will also be included in future prices.

In addition to the expected prices paid to generators, the calculation of prices for Regulated Price Plan consumers also takes into account the balance in a variance account held by the OPA. The balance in this account reflects the difference between what those consumers have paid for the electricity they used and the actual cost of that electricity.

It is important to remember that the plan is limited to prices for the electricity commodity itself. This is shown on the "Electricity" line on your bill, and is only one of a number of factors that contribute to the total price that you pay for electricity that is delivered to you.

### **When will consumers see new prices?**

The Board will forecast new prices for the fall of 2006. If a price change is necessary, the new prices are expected to be effective as of November 1st. After that, prices will continue to be adjusted – up or down every six months as needed – to be responsive to market prices and minimize the potential for large variance account balances.

The Board begins forecasting prices as close as possible to when new prices will go into effect in order to be as accurate as possible. The timing of each new price forecast will also take into account the need for consumers to know about a price change in advance so they can budget accordingly.

The difference between the stable price you pay and the price paid to generators will be rolled into future Regulated Price Plan prices as explained above, so that it is smoothed out over a longer period of time. As a result, there are no lump sum adjustments that appear on your bill. However, if you leave the Regulated Price Plan, you will settle this difference with your local utility at that time. This is necessary so that consumers that remain on the price plan don't end up paying for electricity used by other consumers that left the plan.

For more information on the Board, please visit our web site at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca) or contact the Consumer Relations Centre at 416-314-2455 or toll-free at 1-877-632-2727.

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