



Backgrounder

October 11, 2006

November 1, 2006 Electricity Prices for Regulated Price Plan (RPP) consumers

Highlights:

- Starting November 1st, prices for RPP consumers who buy their electricity commodity from a utility will decrease from 5.8 cents to 5.5 cents per kilowatt hour for electricity use up to a certain threshold per month and from 6.7 cents to 6.4 cents per kilowatt hour for consumption above that threshold.
- For residential consumers, the monthly threshold for the lower price is set at 1,000 kWh per month for the winter season of November to April and at 600 kWh per month during the summer season, from May to October.
- 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 and are therefore not affected.
- On average, this represents a 5.8% reduction in electricity commodity prices. Residential consumers using 1,000 kWh a month will see a decrease of around \$6.60 on their bills. This is the result of a decrease in RPP prices and an increase in the threshold level during the winter months.
- The reduction in electricity prices is primarily due to the decline in the variance account balance. As of May 1, 2006, the shortfall was almost \$420 million and is expected to be down to approximately \$105 million by the end of October. Among other factors, the decline in the variance balance was primarily due to the following:
 1. RPP consumers have been paying 0.5 cents per kWh as part of the electricity price to pay down the shortfall in the variance account. Due to the significant reduction in the variance, that amount to pay off the variance account shortfall will now be reduced to about 0.15 cents per kWh for the next 12 months effective November 1st.
 2. The cost to supply RPP consumers was lower than expected because natural gas prices were lower than forecast and the amount of electricity produced by nuclear generators was higher than forecast. This was somewhat offset by lower than expected production from large (or "baseload") hydroelectric facilities. Natural gas, hydroelectric and nuclear are among the fuel sources used to generate electricity.
- The initial RPP prices announced in 2005 stayed the same for 13 months. As of May 1, 2006, the Board began to review RPP prices more frequently and resets them every six months if necessary.

- Specific hours for RPP time-of-use pricing periods are defined for utilities that currently have billing systems capable of charging time-of-use prices that vary throughout the day to consumers with smart meters and have voluntarily implemented time-of-use pricing.
- The time-of-use prices have been reduced for all three periods:
 - On-peak = 9.7 cents per kWh (previously 10.5 cents)
 - Mid-peak = 7.1 cents per kWh (previously 7.5 cents)
 - Off-peak = 3.4 cents per kWh (previously 3.5 cents)
- These time-of-use (or “smart meter”) prices only apply to a small subset of consumers on the Regulated Price Plan at this time. While TOU pricing is not yet mandatory, it is expected to increase in use as the government’s smart meter initiative is rolled out over the next several years.

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 November 1, 2006 to October 31, 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. RPP prices also take into account the variance account balance (positive or negative) which reflects the difference between the forecast price paid by consumers and the actual cost of supplying them with electricity.

Price impact In 2005, consumers paid less for the electricity they used than the actual cost paid to generators. Since May 2006, when RPP prices were increased to address the resulting shortfall in the variance account, consumers have paid down that shortfall more quickly than expected.

This progress made on reducing the variance account along with the electricity price forecast for the next 12 months means that starting November 1st, residential consumers will pay lower electricity prices – 5.5 cents per kWh of electricity consumed up to a certain threshold per month and 6.4 cents per kilowatt hour for consumption above that.

Threshold The threshold for residential consumers is 1,000 kWh during the winter season (November 1 to April 30) and 600 kWh during the summer season (May 1 to October 31). 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 variance account for the RPP is managed by the Ontario Power Authority (OPA). It tracks the difference between what consumers have paid and what has been paid to generators.

The summer of 2005 was the hottest and most humid summer in recent history. This along with other factors resulted in a significant shortfall in the variance account of almost \$420 million. The Board reset prices on May 1, 2006 to eliminate that shortfall

over a period of 12 months. By August 31st (or after four months), the variance was down to about \$220 million. The Board expects that by October 31, 2006, that shortfall will be further reduced to about \$105 million with electricity prices in the wholesale market during September at their lowest levels since June 2002.

Since the last RPP price adjustment in May 2006, progress in terms of reducing the variance account balance has exceeded the Board's forecast with the variance balance expected to be about 75% lower after only 6 months. This is the primary reason for the reduction in RPP prices effective November 1, 2006.

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