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## **2006 Regulated Price Plan Electricity Rates FAQ**

### **1. What is the Regulated Price Plan?**

The Regulated Price Plan (RPP) ensures prices that consumers pay for the electricity they use better reflect the costs paid to electricity generators. The plan represents a stable and predictable approach to electricity pricing and encourages conservation. The prices under the plan relate to the “electricity” line on customer bills.

Since April 2004, most Ontario consumers have paid a two-tiered price for the electricity they use. Consumers on the RPP continue to pay one price for the electricity they consume up to a certain threshold and a higher price for any electricity consumed above that threshold. The prices for the two levels are determined based on an annual OEB forecast of:

- the cost to supply electricity to consumers over the next year  
**PLUS**
- recovery of the costs that were not recovered from RPP consumers during the past year.

### **2. Why do consumers have to pay the true cost of electricity?**

The provincial government decided in 2004 that consumers should pay what it costs to supply their electricity and, as the electricity regulator, the OEB is implementing that policy through the Regulated Price Plan.

This ends taxpayer subsidy of the cost of electricity and places the responsibility where it more appropriately belongs – with the users of the electricity.

Paying artificially low prices that do not reflect the cost of supply gives no incentive for consumers to conserve electricity.

### **3. Prices are going up and now the Board is saying that it will review prices every six months...are Ontarians going to see electricity prices spiral out of control?**

The Regulated Price Plan allows the Board to review prices every six months and those prices may be adjusted up or down depending on what has happened in the previous period and what we expect to happen over the future 12 months.

Consumers should not assume that they will automatically go up.

The first year of tiered prices in 2004 is a prime example. Consumers recently received a one-time rebate that totalled well over \$400 million because the cost to supply consumers was lower than expected. In 2005, the costs have been higher than expected. Electricity prices are largely driven by the weather. In 2004, the summer was quite cool. In 2005, the summer was very hot.

#### **4. What changes will we see?**

Starting May 1<sup>st</sup>, residential consumers will pay 5.8 cents per kilowatt hour of electricity consumed up to a threshold of 600 kWh a month and 6.7 cents per kilowatt hour for consumption above that. The threshold for residential consumers is 1000 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 threshold for non-residential consumers who are eligible for the price plan will remain at 750 -kilowatt hours throughout the year.

#### **5. How does the RPP encourage consumers to conserve?**

The two-tiered price structure allows consumers to see that their consumption directly affects the price they pay for electricity. If they can keep consumption at or under the threshold, they will only pay the lower tiered price.

#### **6. Doesn't stability and predictability contradict a price that reflects the costs paid to generators?**

On the contrary, the prices will better reflect the prices paid to generators of electricity but it will not continually spike up and down for the consumer.

Instead the OEB has projected the cost of electricity for the next year, based on a forecast of the wholesale market costs (or the prices paid to generators). This projection is converted into a stable set of prices that consumers pay each month. So the price plan smoothes prices for consumers, so that they pay the true cost of electricity over time, but are not subject to day-to-day market volatility.

#### **7. How will price adjustments appear on consumer bills for consumers on the Regulated Price Plan?**

If there is a variance between the new prices that consumers pay and the prices paid to generators during the year, that difference, whether an increase or a decrease, will be blended into the electricity prices for the next period. Starting this year, the OEB will review prices every six months and adjust them if required. You will not have to pay more retroactively and if you have paid more than the prices paid to generators, that payment will go forward as a credit against your prices for the next year. In other words, under the Regulated Price Plan, consumers will not see any lump sum charges or credits while they remain on it.

## **8. How will critical peak pricing be dealt with?**

Critical peak pricing will not be implemented until more consumers receive time of use (TOU) or smart meters. In the meantime the Board will continue to monitor other jurisdictions in terms of how they deal with critical peak pricing and the impact it has on consumers to determine the best approach for Ontario electricity consumers.

## **9. What are codes?**

Codes include the rules used to apply specific programs consistently to real-life situations. The Standard Supply Service code establishes the rules that your local utility must follow for the RPP. OEB codes do not apply to consumers.

## **10. What is the purpose of different tier pricing based on seasons for conventional meters? Why is the winter tier higher than the summer tier?**

Generally consumers have less flexibility when it comes to electricity use in the winter when the need for heating and additional lighting makes it harder to reduce electricity use. This is a particularly important issue for consumers that rely on electricity for their heating. By contrast, there tend to be greater opportunities to conserve in the summer months. Seasonal pricing reflects these differences by allowing consumers to consume more electricity at a lower price during the winter season than during the summer season.

## **11. How does the price plan contribute to a more stable electricity sector and give Ontario a more reliable electricity supply?**

Because the RPP will better reflect the true cost of electricity and therefore prices are no longer subsidized as they have been in the past, there will be a greater incentive to reduce consumption. When residential and business consumers reduce and shift some consumption to off-peak times, there can be a corresponding reduction in the need for power that comes from the most expensive generators; that is, those generators that tend to run only during peak times such as those that run on natural gas. When consumers demand more electricity than Ontario is able to supply itself (such as during a heat wave or extreme cold weather), the province has to increase imported power from neighbouring U.S. states to meet the demand. This imported power can be very expensive.

The Regulated Price Plan also ensures that consumers pay for the energy they use and not for what others use. It includes specific hours for time-of-use pricing periods, which will allow consumers with smart meters to better manage their electricity use and their electricity bills.

## **12. Why is the total bill impact so different from one utility to another?**

Total bill impacts include electricity delivery rates and electricity commodity prices. The change related to commodity prices is the same among all utilities; however, the overall bill impact will differ. The differences are due to:

- 1) The distribution rate, which is included in the delivery charge, for each utility is changing by a different amount and some are increasing while others are declining.
- 2) The starting point for distribution rates is different. Each Utility had a different rate when rates were initially established prior to the opening of the competitive market.
- 3) Each utility also has different operational and financial costs over the last several years.

**13. Will prices always go up as a result of the Regulated Price Plan?**

Under the RPP prices could go up or down, however, the RPP will ensure that prices consumers pay for the electricity they use better reflect the costs paid to electricity generators. The plan represents a stable and predictable approach to electricity pricing and encourages conservation. The prices under the plan relate to the “electricity” line on customer bills.

**14. The RPP Variance now sits around \$377million, how can the Board be so far off in its predictions?**

It is a lot of money but we should keep in mind that the OEB is recovering the actual cost of supplying electricity over the last year. In that case, the forecast was off due to unusual weather that Ontario had in the summer of 2005. It was the hottest summer in the past 30 years. The forecast assumes normal weather and we did not have that weather so costs were higher than expected.

**15. Couldn't the Board have done something earlier in the last 12 months to reduce the impact of electricity pricing and what can be done in the future?**

As Ontario was moving towards a new price structure, the government wanted price stability for the first year as consumers got used to the new system. That's why, for the first year, prices remained stable. However, going forward, the Board will be looking at whether prices need to be adjusted every six months.

The Board does not have the flexibility to reduce the impact by recovering the variance (or the amount that is owed by RPP consumers from the past period) over a longer period of time. The Board is required by law to recover (or return) the amount in the variance account within 12 months.

**16. The recent monthly analysis report released by the OEB states that actual cost to supply consumers is currently around 5.9 cents per kWh, but the IESO website lists its weighted average price around 5.2 cents per kWh?**

The 5.9 cents figure is related to the cumulative actual cost between April 2005 and February 2006 (or the average price you would have paid over that period if the price changed each month). The price on the IESO website differs in that it refers to electricity prices for the past month alone.

The difference between the price RPP consumers paid and the actual cost of 5.9 cents (the variance) is about \$377 million and was mostly accumulated (95%)

between the months of June and October 2005. That variance has actually dropped over the past month.

### **17. Is Ontario alone in terms of rising electricity prices?**

To be clear, when the OEB forecasts prices normal weather conditions are always assumed. As we said, it was a very unusual summer in 2005 with significant increases in natural gas prices and yes other areas across the continent are in the same boat except, in many cases, the bill impacts are much higher than Ontario. For example:

- Electricity prices charged to residential customers in New Jersey are increasing between 12% and 14%
- In Alberta, residential customers saw a bill increase of 23% on January 1<sup>st</sup>.
- In the US state of Delaware, it was recently announced electricity prices will increase by 59% on May 1<sup>st</sup>.

It appears to be a trend across North America due primarily to same increasing natural gas prices that have impacted electricity prices in Ontario. As you may know, natural gas is one of the fuel sources used to produce electricity. One of the major contributors to these substantial increases in natural gas prices included the hurricanes that hit various parts of the US. The electricity prices are higher in all of these other jurisdictions than Ontario because they rely more on natural gas fuelled electricity generators.

### **18. Why are the total bill impacts so different from one utility to another? How could some utilities be asking for a decrease and others for a 9% increase just in their delivery rates?**

Each utility has approached the Board with different delivery rate adjustments. These are based on their costs, which change according to each utility's unique circumstances. For example, some serve consumers in rural areas where consumers can be located very far apart whereas others are located in urban areas where consumers live closer to each other.

### **19. In 2005, Ontarians received a rebate on the price paid for electricity; now the Board is calling for a price increase...can you explain how this happened?**

The rebate that RPP consumers received recently on their electricity bill was actually due to the electricity prices paid and the forecasted costs in 2004. During that year, the summer was much cooler with more rain than normal, which meant very little consumption for things like air conditioning, more available low cost hydroelectric power and therefore lower electricity prices.

Now, we're looking at the summer of 2005 and the actual prices compared to forecast. Because of the extreme heat, lower water levels and much higher natural gas prices, it cost much more than expected to produce the electricity that was supplied to consumers and consumers therefore underpaid. The amount that has

been underpaid has been rolled into electricity commodity prices for the coming year in 2006.

**20. It is not simply the weather that affects electricity prices...what other factors are looked at to forecast prices?**

It includes:

- a forecast of fuel prices such as natural gas and coal,
- a forecast of the amount of supply from each type of generation (nuclear, hydroelectric, coal, natural gas, etc.) which is referred to as the supply mix
- A forecast of the amount of supply from generators that are paid different prices (regulated, under contract, capped, fluctuating market prices, etc.);
- a forecast of electricity demand or consumption; and
- Any variance recovery (or the uncollected electricity costs) from the previous year.

**21. If the Board is setting a price that is the real cost of electricity, why can there be a variance at the end of the year that could increase or decrease the following year's prices?**

The new prices are based on a **forecast**. The forecast is intended to reflect the actual cost as closely as possible. However, many factors affect electricity prices that are difficult to forecast exactly. A good example is the weather. It was the hottest summer in recent history this past year. The previous year was cooler than "normal". However, the forecast always assumes "normal" weather. "Unknowns" also sometimes arise such as the Katrina and Rita hurricanes in the US last year. This had a substantial impact on natural gas prices, which some Ontario generators use as a fuel.

Think of it this way. How often is the weatherperson incorrect when they tell you what to expect over the next week? The most recent RPP prices stayed the same for over a year. Among other factors, this means to forecast the price exactly right, the Board would have needed to forecast the weather correctly for almost 400 days straight.

The variance account tracks any difference between the forecast prices and the actual generation costs while the RPP smoothes the volatility of market electricity prices for consumers.

In contrast, in the winter some consumers heat their homes with electric systems. Many of these consumers do not have the option of switching to a natural gas furnace to heat their home because the infrastructure has not been put in place to deliver gas to them. Renters may also be unable to switch their electric systems.

While there was a large demand for electricity last summer, the summer of 2005 was also the hottest in, at least, the past 30 years. Only two other years were comparable over that 30 -year period. The RPP pricing threshold is higher in the summer when consumers have greater flexibility to adjust their consumption habits.

**22. Consumers just got a rebate on their electricity bills for consumption because they overpaid in 2004. Why wasn't this applied to the RPP?**

The Board did not have the ability to use those funds to eliminate the variance account balance.

It was a decision by the Government to instead provide a lump-sum rebate to consumers.

**23. It looks like Ontario will be building more nuclear plants. What's that going to do to power prices over the next few years?**

The Ontario Power Authority (OPA) has made recommendations to the government on the future electricity supply mix for the province. The government has not yet confirmed the direction the province will adopt and the OEB cannot speculate on the potential impact the future source of electricity supply may have on prices.

What we can say is that our forecast looks at the costs of all sources of supply for the year for which the OEB is setting prices.

**24. How are you going to communicate these electricity price changes?**

The Board has communicated price changes to consumers via the media through a teleconference and one-on-one interviews. As well, an upcoming bill insert will help explain the new pricing changes. The bill insert will start going to consumers from their local utility in the next few weeks.

And, as always, consumers can find more information about price changes and all other Board announcements by visiting the OEB website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca) or calling us at 1-877-632-2727 toll-free and at 416-314-2455.

**25. How will the RPP work with TOU meters?**

The Regulated Price Plan (RPP) also sets out "time-of-use" (TOU) prices for those few utilities that have both systems and meters capable of tracking and reporting hourly electricity use and have implemented TOU pricing. 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.

TOU pricing is as follows:

- On-peak price = 3.5 cents per kWh**
- Mid-peak price = 7.5 cents per kWh**
- Off-peak price = 10.5 cents per kWh**

## **26. What other changes are coming that could make my rates go up?**

Most electricity consumers in Ontario have the same four lines on their bill:

- Electricity: the cost of the electricity supplied to you
- Delivery: the cost of delivering electricity from generators to your utility and then to your home or business
- Regulatory: the costs of administering the wholesale electricity system and maintaining the reliability of the provincial grid
- Debt Retirement Charge: set by the Ministry of Finance to pay down the residual stranded debt of the former Ontario Hydro

You will also see changes to the “Delivery” line of your bill as of May 1, 2006. This is because:

Utilities apply to the Ontario Energy Board for any changes to the rates they charge under the “Delivery” line of your bill. These rates vary from utility to utility and applications to change rates are reviewed by the Board through a public process to determine what costs the utilities may pass on to consumers.

You should contact your local utility for more information on the changes to the “Delivery” line of your bill. You can also find impact charts on the Board Web site at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

## **27. Why should a RPP variance settlement amount be required of consumers who leave the RPP in favour, for example, of a retailer contract?**

The price plan ensures that consumers pay for the electricity they use and not for what others use. In other words, it is designed so that some consumers are not required to subsidize others. Therefore, consumers who leave the plan to sign a retail contract will have their account adjusted for any difference between the actual costs of supplying electricity versus what they paid under the plan. All consumers should only pay what they owe.

It is important to keep in mind that this could be a credit as well as a charge. Currently, it is a charge. You can learn more by linking to the [RPP Settlement Amount](#) page from the OEB Web site at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

## **28. Why do electricity prices fluctuate?**

The forecast price of electricity in Ontario is based on four streams of generation – generation owned by Ontario Power Generation (both nuclear and large hydro) which is regulated; other generation owned by Ontario Power Generation which is subject to a revenue limit; contracted generation, including renewable sources; and market-priced generation including imports.



While some of these prices are established by long-term contracts or regulation, some fluctuate based upon market supply and consumer demand. When consumers demand more electricity than Ontario is able to supply itself (such as during a heat wave or extreme cold weather), the province has to increase the amount of imported power from neighbouring states to meet the demand. This imported power can be very expensive but is often cheaper.

**29. What is the Board going to do for low-income consumers who can't afford these electricity price changes?**

There are a number of programs that address the needs of consumers on fixed and/or low incomes. Just to give an example, a number of utilities, working with social agencies, have adopted programs aimed at low-income consumers and those living in social housing. These can be very effective as they are tailored to the needs of the community, given that utilities work very closely with the communities they serve.

The government has initiated special programs in the past and has now has asked the Ontario Power Authority to set up a special program in this area.

**30. My rent/condo fees include electricity. How does the RPP apply to me?**

Special rules are in place to allow consumers who pay for electricity through rent or condo fees to have the benefit of the price plan. The rules require that your landlord or condominium corporation sign a declaration with the local utility identifying the number of units in your building. If that is done, the price plan will apply to electricity consumption within the building as a whole. Whether or not the new prices are then ultimately passed on to you depend on your arrangements with your landlord or condominium corporation.

**31. I live in an apartment/condo and electricity is included in my rent. I try to conserve as much energy as possible, but I have no control over how much electricity my neighbours consume. How does the RPP benefit me?**

Most people who live in apartments or condominiums consume well below the threshold for electricity at the lower price. How the prices are ultimately passed on to you depend on your arrangements with your landlord or condominium corporation.

**32. I can hardly afford to pay my bills now. Another increase may mean I will lose my home/my electricity will be shut off/I will end up homeless. What is the Board doing to protect people like me? Are there any programs that can help?**

Groups representing consumers told the Board that many consumers rely on electric heat including a disproportionate share of low-income consumers. That is one of reasons why the OEB set a winter consumption threshold that lets consumers use more electricity at a lower price during winter months. The Board takes the concerns of all consumers seriously and has tried to accommodate consumer needs as much as possible while at the same time setting prices that meet the objective of better reflecting the prices paid to electricity generators.

Existing social programs are most effective for assisting low-income earners. There are several programs and initiatives taking place across the province designed to help those in need of assistance. They include:

### **Hydro One:**

#### **Home Energy Efficiency Grant**

- To help customers certain consumers better manage their electricity bills.
- Designed to help homeowners in need with electrically heated homes make energy efficiency improvements in their homes, reduce their electricity bills, and help the environment as well.
- HONI teamed up with Canada Mortgage and Housing Corporation (CMHC) and Natural Resources Canada's (NRCan) EnerGuide for Houses to provide eligible customers a grant up to \$3,000 to improve their homes energy efficiency.

#### **Social Housing Energy Management Program**

- Working in partnership with the Social Housing Services Corporation (SHSC), Hydro One will contribute up to \$1.5 million over three years to help landlords of social housing properties served by Hydro One become more energy efficient and reduce electricity consumption.
- One of several being undertaken by Hydro One as part of a multi-faceted 3-year conservation and demand management program.
- Eligible social housing landlords may apply to SHSC for a grant of up to \$500 per housing unit to undertake energy audits and energy-efficiency improvements.

### **Toronto Hydro:**

**Winter Warmth Fund** (*in partnership between the United Way, Enbridge Gas Distribution*) [http://www.cgc.enbridge.com/G/G04-03\\_warmth.asp](http://www.cgc.enbridge.com/G/G04-03_warmth.asp)

- 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.
- Designed for low-income families and individuals living at or below the poverty line who have exhausted all other sources of financial support.
- Upon a successful application process, the funds will be credited to consumers' Toronto Hydro account.
- Coordinated by a network of community agencies and is a joint venture of the United Way and Toronto Hydro.

## OPA:

### **Low-Income Conservation and Demand Management Program**

- OPA directed to make energy savings for low-income Ontarians a priority to help low-income and service providers save money.
- Province-wide low-income initiative to reduce electricity consumption by 100 megawatts (MW) – the amount used by about 33,000 homes.
- Potential energy savings in Ontario’s housing sector through lighting and appliance upgrades, building improvements, and consumer education aimed at promoting energy conservation.
- Creation and delivery of effective energy-management strategies as a means of improving the quality and viability of housing in the low-income sector generally.

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)

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>

Social Assistance Agencies across the province overseeing and managing government funding and programming in their area, including various emergency funding programs that are typically managed in cooperation with other aid programs. For more information contact your local Ministry of Social Services office.

Rural and Remote Rate Protection, provided to certain consumers, identified by regulation, to provide a subsidy on distribution charges.

### **33. Many people live in remote northern communities where they don’t have the option of using natural gas to heat their homes. Electricity is one of the only options open to them for heat. Are there any provisions for them?**

Generally consumers have less flexibility when it comes to electricity use in the winter when the need for heating and additional lighting makes it harder to reduce electricity use. This is a particularly important issue for consumers that rely on electricity for their heating and their water heaters. By contrast, there tend to be greater opportunities to conserve in the summer months. Seasonal pricing reflects these differences by allowing consumers to consume more electricity at a lower price during the winter season than during the summer season.

**34. Can the landlord of a building with a bulk meter benefit from the increased amount of electricity that can be consumed at the lower price in the winter at a lower price and not pass that advantage on to his or her tenants?**

How and whether prices are passed on to consumers depends on your arrangements with your landlord or condominium corporation.

**35. How has the Board calculated the Regulated Price Plan prices?**

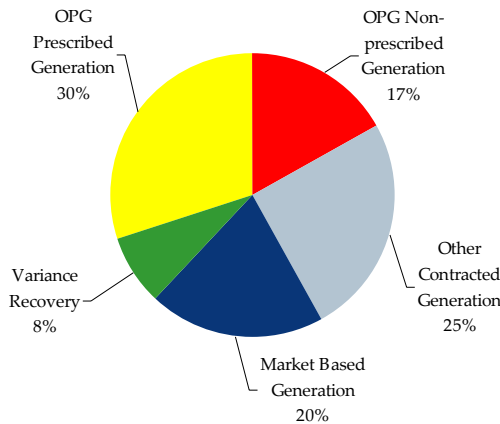
The Regulated Price Plan is a forecast of a blend of the regulated prices for Ontario Power Generation’s (OPG) nuclear and baseload hydro facilities, capped prices paid to most of the other OPG facilities, existing contract prices for supply from non-utility generators and the Board’s forecast of electricity prices in the spot market over the next twelve months. It also includes recovery of the unpaid electricity costs from the past 13 months. In subsequent periods of the price plan, a larger amount of new supply delivered under contract prices will be included in the price calculation.

**36. All of the RPP propaganda refers to the need for the price consumers pay for electricity to reflect the costs paid to generators. What does that mean? Isn’t that just “spin” giving licence to generators to build in huge profits on the backs of consumers?**

The Minister of Energy asked the Ontario Energy Board to develop an electricity pricing plan to make sure the price consumers pay for electricity better reflects the price paid to generators. The Regulated Price Plan does that, based on a blend of prices paid to generators.

Included in the price calculation are:

- 1) Prices under contracts that have already been signed (25%)
- 2) OPG prices set by the government through regulation (30%)
- 3) Other OPG prices capped by the government (17%)
- 4) Prices determined in a competitive market operated by the IESO where the generators must bid in. If they bid too high, their bid will be rejected and they earn nothing. These market prices only account for about 20% of the total cost to supply RPP consumers with electricity.
- 5) The remainder includes recovery of the unpaid electricity costs from the past 13 months (or the variance recovery). (8%)



**37. Is this price increase a result of increased spending at the Board?**

Any increases in OEB spending are directly related to increased responsibilities assigned the Board by the Government of Ontario. The RPP price is based strictly on the costs to produce electricity. OEB costs are therefore not included in RPP prices.

**38. The OEB has many employees that make over \$100,000 a year. Are Ontarians essentially subsidizing those salaries through electricity prices?**

The public sector salary disclosure relates to those employees at certain income levels, which are publicly available on the government's website. As a Crown Corporation, the OEB had to increase its staff to take on a number of new responsibilities assigned to it. We require a certain level of expertise and knowledge to handle these duties. Salary levels reflect that level of expertise and we are listed in the mid-range for salaries according to the independent consultants who issue our salary handbook.

**39. What is the OEB doing to conserve?**

The OEB is undertaking several initiatives to conserve energy including:

- Closing blinds on hot summer days to keep the heat out
- Turning lights in offices off on weekends, evenings and when you know you'll be away from your desk for an extended period of time
- Using more task lighting and changing out lighting system to more easily turn on and off as needed
- Setting computer monitors to shut off after 15 minutes of inactivity
- Shutting off computer equipment when employees leave for the day
- Turning off photocopiers and printers at the end of the day