

## ONTARIO ELECTRICITY REGULATORY UPDATE

Many companies currently have questions regarding the Ontario Electricity Market and changes recently announced by the provincial government. We have outlined below the changes that have occurred with the Regulated Price Plan, we have clarified what the rebates and adjustments are and how they are calculated, and have then provided some additional comments for your information.

You should first understand that MOST of the changes will not directly affect your company as they impact primarily the small users in the province.

### Regulated Price Plan Market Update

*(All Customers under 250,000 kWh or about \$25,000 per Year)*

Effective November 1, 2005 customers who were being invoiced under the Regulated Price Plan were paying \$0.05 per KWh for the first 1,000 KWh per month and \$0.058 per KWh for every KWh thereafter. As of May 1, 2006 these tiers have been changed. From May to October the price has risen to \$0.058 per KWh for the first 600 kWh per month and \$0.067 per KWh for everything thereafter in the month (this represents an increase of 15.5% on the top tier and 16% on the lower tier). From November through April the first tier will be increased to 1,000 KWh per month. You should note that for small users the commodity portion of the invoice represents approximately 50-55% of the total invoice so this is a very significant price hike.

These regulated prices (referred to as the Regulated Price Plan, or RPP) have been favorable in the past, but moving forward they are to change to better reflect the actual cost of generation. The Ontario Energy Board (OEB) is to review prices every 6 months and a new RPP price is to be implemented. If on average over the 6 month term the small consumers pay too much for electricity, when compared to the true market prices, a credit will be blended into the RPP for the next term. The opposite will also occur and the new RPP prices are a good example of that. Included in the May 1<sup>st</sup> RPP rate is a premium that is to cover the \$380 million debt that was built up as a result of the unrealistically low RPP prices that have been in place since November 2003.

The following chart shows what the average weighted hourly price has been in Ontario since the electricity market opened to competition (this chart was taken from the IESO web site; the IESO is the Independent Electricity System Operator, another Governing body of the Ontario Power Market).

Average Weighted Hourly Price (¢/kWh)													
Year	Avg.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	5.32	5.71	4.90	5.01	4.54								
2005	7.21	5.98	5.05	6.10	6.36	5.47	7.12	8.20	9.52	9.97	8.02	6.07	8.39
2004	5.22	6.95	5.43	5.02	4.73	5.05	4.94	4.78	4.55	5.13	5.04	5.38	5.28
2003	5.76	6.23	8.86	8.48	6.16	4.51	4.53	4.27	5.15	5.05	5.90	4.19	4.68
2002	5.59	-	-	-	-	3.00	3.71	6.20	6.94	8.31	5.09	5.12	5.93

The OEB is planning for small users, including residential customers, to have smart meters in place by 2008-2010 (most users are expected to have a smart meter by 2008). At that time, or once a smart meter is installed at a small user's building, the new pricing the OEB is proposing to be in effect is as follows:

<b>Weekdays</b>	<b>Price</b>
7 am to 11 am	7.5¢/kWh
11 am to 5 pm	10.5¢/kWh
5 pm to 10 pm	7.5¢/kWh
10 pm to 7 am	3.5¢/kWh
<b>Weekends</b>	3.5¢/kWh

Even though most industrial and commercial facilities are above the RPP threshold, it is important to understand how the RPP works. The reasons for this are threefold:

First, to illustrate that *the RPP prices paid by all customers under 250,000 kWh in the past **did not reflect the actual cost*** and this has resulted in a new and significant debt which is now being paid back through higher rates.

Second, to illustrate the smart meter prices being posted by the Governing Bodies which *has been done to prepare the small-user for the higher prices that are aimed at promoting conservation.*

Third, so that our clients know that the prices must be high enough to *entice new investment in additional generation.*

Note: Any RPP customer wishing to leave the RPP market must first settle their portion of the debt.

It is important to note that the prices posted for time-of-use metered customers have now changed several times and each time the prices have increased (like the current RPP system, the smart meter prices will be reviewed every six months and will be adjusted to reflect the actual cost of power). The prices posted are not necessarily what customers will pay in 2008, however we do not expect the prices to be significantly less.

### **Rebates and Adjustments**

You will note on your monthly invoice that there is a line indicating the Provincial Benefit. You are only eligible if you contract with a Retailer or if you consume more than 250,000 kWh per year. In its simplest form, the Provincial Benefit reflects the difference between the market prices and the guaranteed regulated rate that is paid to OPG's base-load generation stations (large hydro-electric and nuclear plants). It takes into consideration the payments and contracted rates paid to Non-Utility Generators and contracts that have been awarded through the OPA's (Ontario Power Authority's) RFP process.

You should note that since the Provincial Benefit first started in January 2005, March and April of 2006 were the first months for which this changed from a rebate to a charge. That occurred because the spot market prices were lower than the fixed price guarantee given to those OPG assets. The adjustments that have been applied to your invoices since the beginning of this year have been as follows:

April 2006	+\$0.004 / kWh
March 2006	+\$0.002 / kWh
February 2006	-\$0.0035 / kWh
January 2006	-\$0.0145 / kWh

Note: These adjustments are applied to every kWh consumed.

The other adjustment is the OPG rebate. In short, if you pay the market price for electricity, or a fixed price under any of the contracts we have recommended, you are eligible for this rebate. The rebate will be \$0.0065 for every kWh consumed between April 1, 2005 and December 31, 2005. Payment is expected to be sent to the customer at any time if it has not already arrived. Expect to see it as a credit on your electric utility bill. The rebate for the January 2006 to April 2006 period will be sent in the early summer, and it will be paid quarterly thereafter.

This rebate takes into consideration the monies paid to OPG that are in excess of their revenue cap of \$0.047 per kWh. The \$0.047 per kWh revenue cap is applied to 85% of OPG's coal-fired and smaller hydroelectric generation facilities. Effective May 1, 2006 the price will be lowered to \$0.046 until May 1, 2007 when it will once again be \$0.047 per kWh. Effective May 1, 2008 it is to increase to \$0.048 per kWh.

### **Our Final Comments**

We do not expect the low market prices that have been enjoyed during the first four months of this year to continue. The lower than normal market prices were simply the result of very low demands brought about by a very mild winter. When demands in Ontario are high, the power needed to meet those demands will typically come from natural gas and other fossil fuel electricity plants. The costs of those fuels is currently very high, and they are expected to remain high throughout the balance of this year. Therefore if the coming summer is very hot, expect hourly spot prices for electricity to be very high.

---

This material may be used editorially provided  
En-Pro is credited.

**EN-PRO INTERNATIONAL INC.**

174 Simcoe Street North  
Oshawa, Ontario, L1G 4S9  
[www.en-pro.com](http://www.en-pro.com)

Phone: (905) 686-6400  
Fax: (905) 686-6439  
Media Relations: (416) 490-6961



*Your Energy Management and Commodity Price Professionals Since 1985*

*Celebrating 21 Years of Service in 2006*