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## ONTARIO'S ELECTRICITY MARKET IS MORE AT RISK THAN EVER BEFORE FOR PRICE SPIKES

**– AVERAGE HIKES THIS SUMMER COULD BE 40% TO 50%!**

Ontario's electricity market is more at risk than ever for excessive price spikes in the coming months. Not since deregulation of the market, in May 2002, has it been more of a threat.

Hourly electricity prices are established in a bidding process from all generators in the marketplace and the prices change hourly.

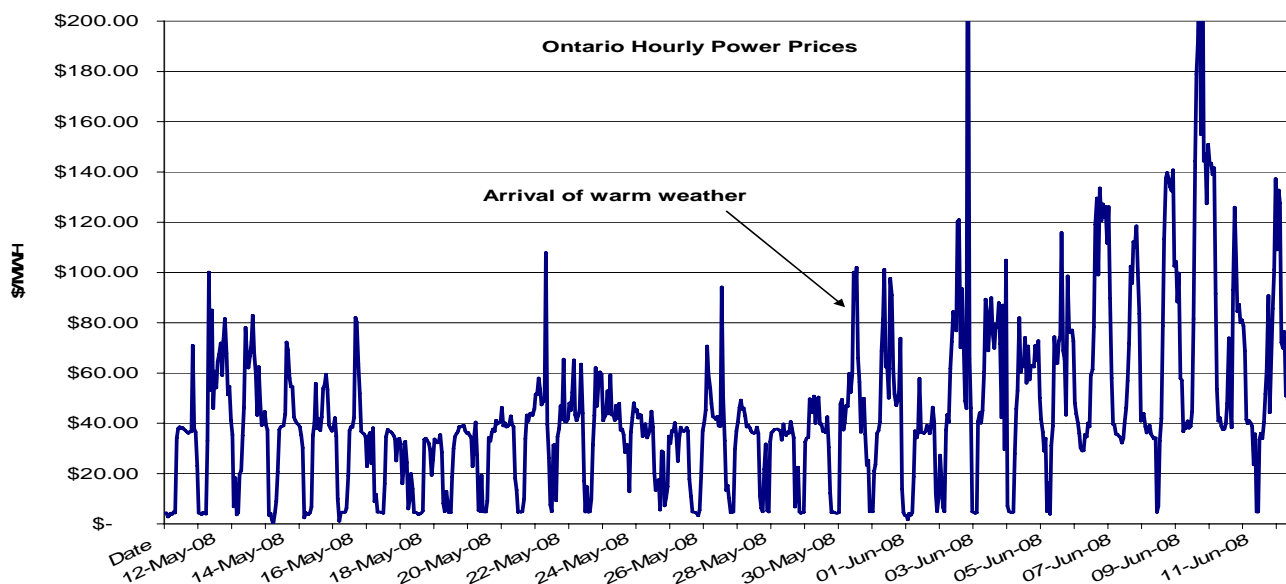
First, let's take a look at the detail behind the bidding process.

All generators in the market submit their bids hourly – each for their available capacity. Those bids are then stacked from lowest to highest – the highest bid necessary to meet the electricity demand that hour then sets the price for entire market.

During times when demands are low like spring, fall, evenings and weekends, the hydro-electric and nuclear generators are usually able to meet the demand and their costs are relatively low as they are not impacted by high priced energy markets.

But, when demand reaches a certain level either from hot or cold weather, and when fossil fuel-fed electric generators come into the mix, prices are much higher. The feedstock, (substances used as a raw material in an industrial process), to run those plants today are up by more than 100% since the markets first opened to competition.

During the past two weeks we have caught the first glimpse of what this means to hourly electricity prices. Take a look:



Not only did prices rise when demands hit the warm weather threshold, they nearly doubled as natural gas and fossil fuel-fired generators began setting the hourly price. This one period caused the weighted average price from June 1 to the 12, 2008 to come in 40% higher than the weighted average price year-to-date.

This summer is expected to be warmer than normal so many more periods such as the drastic spike shown in the above chart can be expected.

Given our outlook for greatly increased natural gas prices, the spikes may be more severe as we move further into summer, should natural gas inventories be impacted by heavy draws from electric generators or supply disruptions due to hurricanes.

While businesses, for the most part, pay for their power on an hourly basis, there are a variety of hedging plans available through energy marketers – some are good and some are not so good. Weighing the benefits of those plans is no easy task, especially if you consider the slick marketing tactics out there.

En-Pro helps clients weigh the various options and help you set in place a risk strategy that meets your corporate objectives. The goal: to eliminate the significant risk that can exist in open energy markets, maintain budget certainty, and pay the lowest price possible at all times.

Small electricity users like homeowners currently pay a price based on the regulated price plan or RPP, and those rates effective May 1, 2008 moved to \$50/MWH for the first 0.6 MWH per month and \$59/MWH for all power over that (5 cents and 5.9 cents per kilowatt-hour).

As noted in the above chart, those rates are significantly lower than the true cost of supplying power to the grid, and we are anticipating much higher RPP prices beginning November 1, 2008, which is the next price review period.

The price reviews undertaken by the Ontario Energy Board take into consideration accumulated surpluses or deficits in the pricing bank, as well as anticipating hourly prices moving into the next period. This November should see huge shortfalls in the pricing bank and much higher supply costs moving into winter, which means the RPP rates could easily rise by 40 to 50%.

The small electricity users are perhaps less able to limit their costs in this open market as the supply options available are often limited to the pesky door-to-door marketers who use slick marketing tactics and offer prices that are significantly higher than the true cost of forward term power as their margins are significant.

It is perhaps best for the homeowner or small business to focus on conservation and when time-of-use smart meters are fully implemented by next year, use your power during the lowest priced periods.

By John Kiemele, Sr. Vice-President, En-Pro International Inc.

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