

2004 Electricity Pricing – Ontario Government Rate Cap

Facilities & Real Estate Division, Corporate Services Department

BRIEFING NOTE

Issue/Background:

On November 25, 2003, the Ontario Government introduced the Ontario Energy Board (OEB) Amendment Act, (Electricity Pricing) 2003 (“Bill 4”) to lift the price freeze established by the former Conservative government. Bill 4 was passed on December 18th, 2003. Under this Bill, the 4.3 cent/Kwh rate cap for low volume customers and the MUSH (municipalities, universities, schools and hospitals) sector has been replaced by a two tiered rate cap of 4.7 cents/Kwh for the first 750 Kwh used each month and 5.5 cents/Kwh for all remaining Kwhs used thereafter. This new rate cap is effective April 1, 2004 and will be in place until May 1, 2005 when the OEB is to regulate pricing for certain electricity consumers, which may include municipal customers as well as residential and other low volume customers.

Key Points:

Electricity Pricing

- An electricity power purchase agreement (PPA) between the Toronto Hydro Energy Services Inc. (THESI) and the City, its agencies, boards, commissions (ABCs), and the Toronto Community Housing Corporation (TCHC) was entered into before the electricity market opened up on May 1, 2002, to secure electricity commodity supply and pricing, and is set to expire on April 30, 2005.
- On November 11, 2002, the Province announced and subsequently enacted the *Electricity Pricing, Conservation and Supply Act, 2002*, freezing electricity commodity prices for residential, low volume, and municipal consumers at 4.3 cents/Kwh, retroactively to May 1, 2002 and on a go-forward basis until May 1, 2006. Upon further investigation, it became apparent that while the City is eligible for the price cap, not all of its ABCs are eligible.
- The total annual cost of electricity for the City, its ABCs, and TCHC is approximately \$150 million. The commodity portion, which relates to the PPA, is valued at approximately \$90-\$95 million per annum after accounting for the current price cap.
- Approximately 4,200 electricity accounts are included in the contract. The contract is for the commodity only, which makes up about 65% of the total electricity bill. The remainder of the bill, 35%, is related to distribution, debt retirement, transmission and other regulated charges.

Lifting of the Rate Cap

- Lifting of the current rate cap of 4.3 cents/Kwh will have significant implications for the City. However, since the announced new rate cap (4.7 cents for the first 750 Kwhs and 5.5 cents for

the remaining Kwh on each account) is higher than the PPA average rate of about 5.1 cents/Kwh, all accounts will revert back to the PPA rate.

- The effect of moving from the capped rate of 4.3 cents/Kwh to the PPA rate as of April 1, 2004 will result in additional electricity costs of approximately \$7.5 to \$8.5 million in 2004.
- A rebate program that has been in place since market opening may partially offset this amount depending on the calculation of the rebate in 2004. The rebate and the rebate formula is administered by the Independent Market Operators (IMO), and changes on a quarterly basis depending on the electricity market prices.

Estimated Cost Comparison of Lifting the Current Rate Cap

The following table shows the potential effect on each of the City departments, ABCs, and TCHC of lifting of the rate cap and moving back to the PPA rate.

Agencies, Boards & Commissions and Departments	Estimated Consumption (kWh)	Total Accts	Eligible for Rate Cap	Estimated 2004 Cost with Rate Cap	Estimated 2004 Cost w/o Rate Cap	Estimated 2004 Incremental Cost
Agencies, Boards & Commissions	120,032,300	256	178	\$10,613,600	\$10,731,800	\$118,200
Ambulance & Fire Services	13,807,000	121	121	\$1,091,400	\$1,195,000	\$103,600
Community & Neighbourhood Serv	37,604,900	65	65	\$2,839,600	\$3,086,000	\$246,400
Corporate Services	134,273,700	213	213	\$9,944,100	\$10,801,900	\$857,800
Eco, Dev, Cultural & Tourism	128,553,200	1,074	1,074	\$10,497,800	\$11,461,300	\$963,500
Toronto Transit Commission	421,398,200	437	34	\$39,355,400	\$39,372,200	\$16,800
Transp Serv - Signals & Lights	135,238,400	84	84	\$8,925,100	\$9,531,000	\$605,900
Works - Solid Waste & Yards	26,540,100	98	98	\$2,049,300	\$2,213,800	\$164,500
Works - Water Pollution Ctrl	216,119,200	64	64	\$13,723,700	\$14,686,500	\$962,800
Works - Water Supply	352,141,200	107	107	\$22,459,700	\$23,841,600	\$1,381,900
Subtotal	1,585,708,200	2,519	2,038	\$121,499,700	\$126,921,100	\$5,421,400
Toronto Community Housing	407,235,700	1,753	1,753	\$29,899,000	\$32,393,900	\$2,494,900
Total	1,992,943,900	4,272	3,791	\$151,398,700	\$159,315,000	\$7,916,300

Notes:

- 1) Rebate & rate cap applies to meter/acct with 250,000 kWh or less and designated MUSH accts.
- 2) The Market Power Mitigation Rebate (MPMA) applies only to accounts not receiving the rate cap (eg. most TTC accts). The amount of rebates going forward is unknown and is not included in the above figures.
- 3) ABC includes the Arena Boards, AOCC, Exhibition Place, Public Library, Parking Authority, TEDCO, Zoo and the 3 Performing Art Centres.
- 4) Locations included under Non-Program budget are distributed to each respective Dept (Boards, CNS, EDCT & Works).

The cost differential of \$7.916 million does not necessarily translate into a budget pressure. Facilities and Real Estate does not control the hydro budgets in all departments or ABCs and as a result, estimates provided are based on projected actuals. A comparison of all City budgets and budget assumptions would need to be conducted to determine the overall budget pressure, if any, that would be created as a result of lifting the rate cap.

An amount of \$3.060 million has been included in the 2004 EMT Recommended Operating budget to cover the increased cost of removing the rate cap on the City's Levy Supported Operations.

The rate cap is to be in place until May 1, 2005. The City's PPA also expires on that date. Discussions are now taking underway to prepare for an extension of the PPA or some other means to minimize rate increases to the City in 2005 and subsequent years.

Date:

February 10, 2004

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