

# Are Retail Electricity Contracts Good Option?

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## AGGRESSIVE ENERGY

retailers have been walking in off the street and trying to sell long-term fixed-priced electricity contracts to



a number of condominiums across the City of Toronto. Hydro consumes a large part of a condominium's

budget and the idea of fixing the price for five years might be appealing to many. Are retail electricity contracts a viable option to save your condominium money? First, you need to know how the rate you are currently paying is determined.

### ■ The Regulated Price Plan

Most condominiums today are purchasing electricity from their local distribution company (LDC) at rates that are established by the Province through the Ontario Energy Board (OEB). After the turmoil of wild spot price fluctuations that occurred a number of years ago, the Province sought to stabilize electricity prices and established a Regulated Price Plan (RPP) that condominiums are eligible for.

If your condominium is not yet being billed under a time-of-use (TOU) rate structure (slowly being rolled out by a number of LDCs), you are paying for electricity under a tiered RPP rate structure as shown at right.

The threshold consumption levels have been stable for a number of years. The 600 kWh threshold at the lower rate from May to the end of October is an attempt to encourage

you to conserve electricity during the summer months when demand for electricity is higher. The actual rate per kWh is adjusted every six months by the OEB. The OEB monitors the cost of power produced and a number of other variables. If the cost during any 6-month period is higher than the RPP rates, these rates are adjusted upward for the next six months to recover the "deficit." If the actual cost is lower, the rates are adjusted downwards to refund the surplus during the next six months. In this way, you are essentially paying for the cost of electricity in a relatively stable environment.

By the end of December 2010, the LDCs are required to implement a TOU rate structure as shown on page 55.

As you can see, there will be three rates established and the rates increase or decrease according to time of the day or the week when electricity demand 'typically' increases or

decreases. 'Typical' is based on a historical pattern of when the demand for power fluctuates within the Province. That consumption pattern is based on all industrial, residential and commercial users and the pattern could be called the provincial load shape. The same historical pattern of when power is consumed in your building could be called your building's load shape. The TOU rates will be applied to your building's daily or weekly load shape to generate an invoice for the commodity portion of your hydro bill.

Will the blended cost of TOU pricing be close to your current 2-tiered RPP pricing structure? That's a good question because every building's load shape is different and the answer depends on the building's demographic and its HVAC system. Our best guess is that it will be slightly lower. The one advantage of TOU is that you may be able to shift consumption

## Regulated Price Plan Rates

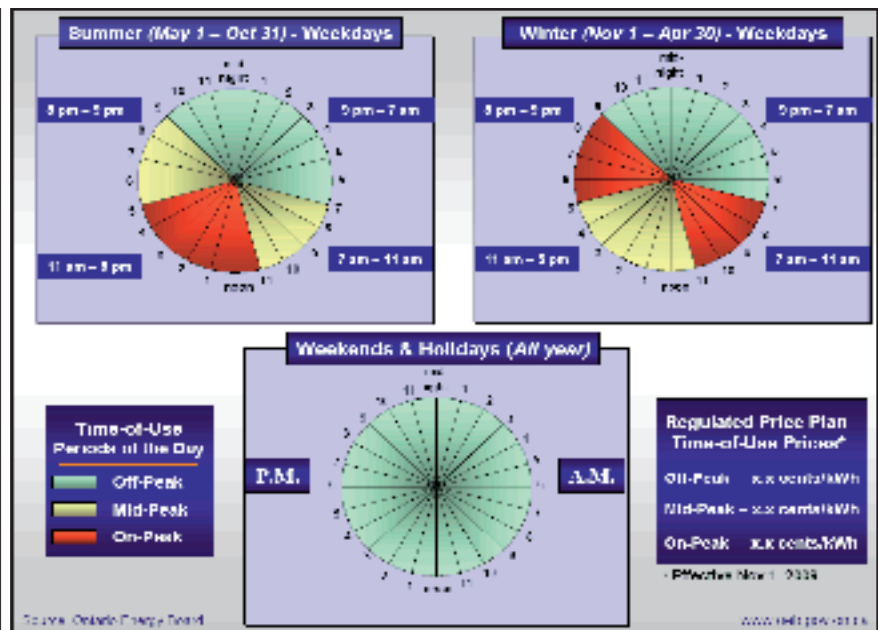
	2007/08	2008/09	2009/10
<b>November 1 – April 30</b>			
<b>1st 1000 kWh/unit</b>	0.050	0.056	0.058
<b>Remaining Volume</b>	0.059	0.065	0.067
	2008	2009	2010
<b>May 1 – October 31</b>			
<b>1st 600 kWh/unit</b>	0.050	0.057	To Be Announced
<b>Remaining Volume</b>	0.059	0.066	

to off peak periods when the cost is much lower.

### ■ Retail Contracts

An excellent source of information on retail energy contracts is the Ontario Energy Board website [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca). Read the page on “Contracting with Natural Gas Marketers and Electricity Retailers.” However, be cautious, the consumer protection rules on that page don’t apply to you. They only apply to single-family homeowners. There is also useful information on the number of complaints filed by consumers against the various retail suppliers.

One of the first things you will be told by a retailer is that by moving off the RPP to a retail contract, the condominium will receive a ‘large’ credit from the Province. This credit is called the “final RPP Variance settlement amount.” As indicated in the OEB website “this amount will reflect the consumer’s share of any accumulated variance between the actual price paid to generators and the forecast price paid by price plan (RPP) consumers.” It is essentially your share of the surplus or deficit resulting from the 6-month monitoring of prices by the OEB discussed above. The notion of getting a ‘large’ credit may be appealing but be absolutely certain that it is ‘large’ and that it is, in fact, a credit. The final RPP Variance Settlement Factor at the end of September was 0.131 cents per



kWh. The credit you will receive is equal to your total kWh consumption for the 12-month period preceding conversion to a retail contract multiplied by the Settlement Factor. If you consumed a million kWh of electricity in that year, your credit would be \$1,310.00. The Factor changes monthly and you can find it and the historical pattern on the OEB website.

### ■ The Not So Fixed ‘Fixed’ Price Contract

Also, as part of the sales pitch for a 5-year fixed price contract, you will be told that it would be easy to budget and it would shelter you from rate increases for that period (you will be given lots of reasons why electricity

prices are going to skyrocket). Be careful. Once you go off the RPP and onto a retail contract you will now see another expense item on your hydro bill called ‘Provincial Benefit’. You need to know what that is.

The Province regulates the price you pay and it also regulates the price it pays to electricity generators. These could be large producers like Ontario Power Generation (OPG) or smaller producers of solar or wind generated electricity. To encourage more ‘green’ production of electricity some of the contract prices with green producers far exceed what we are paying. Regardless, the Province needs to ensure power generators stay in business and green production is encouraged

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and it contracts with these producers to produce power at fixed rates. If the actual market price for electricity is higher than the contracted fixed price that these generators could have received had they not been subject to government regulations or contracts, you will get a credit on your share of the surplus revenue. If the actual market price is lower, you will be charged your share of what is effectively a subsidy the Province is paying when the market prices are lower than the contracted fix prices.

This difference is either a credit or a charge and the difference is called the 'Provincial Benefit'.

What has been the experience to date? First, during all of 2009 to date the Provincial Benefit has been a charge. In August, it was 4.33 cents per kWh. This means that if you had purchased hydro under a fixed price contract at 6.5 cents per kWh, your actual cost for August would have been 10.83 cents per kWh after the Provincial Benefit was added. The Provincial Benefit changes monthly. In September, the rate dropped to 3.36 cents per kWh. Your actual cost

per kWh would have been 8.86 cents in September. The lowest Provincial Benefit cost in 2009 was in February when it was 0.546 cents per kWh. For the year, it has been averaging around 3 cents.

The point is that during 2009, you would have paid somewhere between 7.046 cents and 10.83 cents per kWh under a "fixed" price contract of 6.5 cents per kWh. That's not very 'fixed' when compared to the RPP.

Do you know what the difference will be between the market price and the blended cost of all of the fixed price contracts the province has with all electricity producers across the Province during your next budget year? I didn't think so and I don't think you will find anyone who can answer that question. If that's the case, how can it be easier to budget? The Provincial Benefit sounds appealing but it would create serious financial problems for your condominium. If you stay on the RPP, you don't have to worry about the Provincial Benefit because it is one of the variables rolled into the RPP rate calculation by the OEB.

## ■ The OPG Rebate

Consumers that leave the RPP and sign a retail contract are eligible to receive the OPG rebate. As indicated in the website, the Ontario Government placed a cap on the amount paid to certain generation facilities owned by Ontario Power Generation (OPG). Consumers will receive a rebate for any revenues from those facilities exceeding 4.8 cents per kWh. You should be aware of this potential rebate. Some retail contracts are worded so the rebate goes back to the retailer. You need to ensure the rebate is returned to you.

The decision to move off the RPP and onto a retail contract is not an easy one. There are a large number of issues to be considered and this article has only addressed some of them in a cursory manner. Be very careful and be sure that you understand the risks involved. ■

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## Association of Condominium Managers (ACMO)

This program has been developed specifically for both individuals who are new and who are currently working in the condominium field. Condominium management is a growth industry throughout the province. Participants will learn how to deal with people, buildings and record-keeping. A combination of theory and practical problems are incorporated into all courses providing opportunities for participants to develop their knowledge, skills and abilities in managing effective condominiums.

In cooperation with ACMO, Mohawk College will offer the following Association of Condominium Manager Program courses in a Distance Education (Internet) format.

- Introduction to Condominium Law (CDM01)
- Physical Building Management (CDM02)
- Financial Planning for Condominium Managers (CDM03)
- Condominium Administration and Human Relations (CDM04)

Participants require access to the Internet. All specific software and course materials are provided.

This program is a valuable education step in the process of obtaining the Registered Condominium Management (R.C.M.) designation.

**Registration for Winter 2010 courses starting in January begins December 8<sup>th</sup> 2009.**

Contact Susan Fulsom, Distance Education, at 905-575-2704, [susan.fulsom@mohawkcollege.ca](mailto:susan.fulsom@mohawkcollege.ca) <http://disted.mohawkcollege.ca>.

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