

Electricity Distribution Rates

Electricity distribution rates are designed to cover the costs incurred by the local distributor to distribute electricity to homes and businesses within their service territory.

The Ontario Energy Board (OEB) reviews each distribution rate application independently and decides which costs it will allow distributors to recover in rates. Distribution rates are passed on to consumers on a cost recovery basis and include a regulated rate of return of up to 9.85% (varies by distributor, and may be less).

Distribution charges account for approximately 22% of a customer's electricity bill. The charge is included as part of the "Delivery" line item on the bill, which also includes transmission* (transmission charges account for approximately 8% of a customer's electricity bill).

*Electricity is transmitted over high-voltage transmission lines between the generating station and the local distribution area where the electricity is to be used. Hydro One owns and operates most of the transmission lines in Ontario.

Distributors are the Interface between Consumers and the Electricity Market

Distributors take electricity from high-voltage transmission lines and safely provide it to homes and businesses, at an appropriate voltage, throughout the local distribution area. Distributors act as an interface between customers and the electricity market by:

- Providing electricity at the prevailing regulated rate to customers who have not signed contracts with retailers;
- Acting as customers' primary billing agent, including most of the customers who have signed retail contracts;
- Providing customer service through regular repair and maintenance, call centres, education campaigns and emergency response;
- Delivering conservation and demand management programs to their local communities to help 'create a culture of conservation' and provide customers with the tools they need to conserve and be more energy efficient;
- Implementing the government's smart meter initiative, by installing smart meters and transitioning customers to time-of-use (TOU) pricing so they are able to better manage their usage and costs.
- Connecting new clean renewable generation in their communities through the Feed-in Tariff (FIT) and microFIT programs.

Under the *Green Energy and Green Economy Act, 2009*, Ontario's electricity distributors are taking on new roles and responsibilities in the development and delivery of conservation and demand management (CDM); connecting renewable energy, and in some cases, undertaking their own renewable projects; and, employing new technologies to help develop and build a smart grid.

Distribution rates vary from distributor to distributor – some rates are increasing, while others are decreasing. Individual distribution rates vary because of many factors, including among others, what investments might be required for utility infrastructure. As regulated entities, all distribution rates must be approved by the Ontario Energy Board (OEB).

An aggregated provincial average shows that distribution rates across Ontario have decreased by almost 1% over last year (2009 to 2010). The OEB has approved most of the province's 2010 LDC rate applications which took effect on May 1, 2010 (13 applications remain outstanding and are awaiting OEB approval as of June 21, 2010).

This compares favourably with the cost of generating electricity (the Regulated Price Plan , which took effect on May 1, is up by approximately 8% from the November 1, 2009 to April 30, 2010 period) and the addition of the Harmonized Sales Tax (an additional 8% tax that will be applied to electricity bills beginning July 1, 2010).

Approximately 22% of an average 2010 residential electricity bill accounts for distribution charges (included as part of the delivery charge line on electricity bills). However, many consumers are not aware that local distribution companies are the billing agent and they collect on behalf of other electricity market participants and the government (the remaining 78% of the bill).

Current Issues/Challenges

- Understanding the electricity bill, and the part that distribution rates play in its make-up, continues to be misunderstood. Electricity distributors are the billing agent for the entire industry.
- According to the aggregated provincial average, approximately 22% of an average residential electricity bill accounts for the distribution charge - the remaining 78% of the bill are charges from other electricity market participants and the government (generation, transmission, debt retirement charge, HST, regulatory charges).