

**Ontario Energy Board**  
P.O. Box 2319  
27th. Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416- 481-1967  
Facsimile: 416- 440-7656  
Toll free: 1-888-632-6273

**Commission de l'Énergie de l'Ontario**  
C.P. 2319  
27e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone; 416- 481-1967  
Télécopieur: 416- 440-7656  
Numéro sans frais: 1-888-632-6273



## BY E-MAIL AND WEB POSTING

March 22, 2010

**To: All Rate Regulated Natural Gas Distributors  
All Licensed Electricity Distributors  
All Other Interested Parties**

**Re: Consultation on Distribution Revenue Decoupling  
Board File Number EB-2010-0060  
Issuance of Consultant's Report and Notice of Stakeholder Meeting**

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The Board is initiating a consultation process to examine the revenue adjustment and cost recovery mechanisms that are currently available to electricity and natural gas distributors to address revenue erosion resulting from unforecasted changes in the volume of energy sold. These mechanisms have now been in place for some time, and the Board has determined that a review is appropriate at this time to enable the Board to confirm whether these mechanisms remain adequate and sufficient under current conditions. Among other things, amendments to the *Ontario Energy Board Act, 1998* made by the *Green Energy and Green Economy Act, 2009* contemplate that electricity distributors will be required to achieve conservation and demand management ("CDM") targets as part of an overall policy of promoting and expanding energy conservation by all consumers.

The Board retained Pacific Economics Group Research ("PEG") to analyse the mechanisms currently available to Ontario energy distributors against selected alternative approaches used in different jurisdictions. All of these alternative approaches, as well as some of the mechanisms currently available in Ontario, are commonly referred to as 'revenue decoupling' mechanisms insofar as each involves some means of fully or partially disconnecting the link between the volume of energy consumed by customers and the recovery by energy distributors of their approved revenue requirement.

As a first step in this consultation process, the Board has today posted PEG's report entitled *Review of Distribution Revenue Decoupling Mechanisms* (the "PEG Report"). The PEG Report compares Ontario's approaches to addressing distribution revenue erosion with various approaches in use elsewhere. The PEG Report also describes different approaches to, and jurisdictional experience with, revenue decoupling and sets out potential criteria for assessing whether further revenue decoupling should be considered for Ontario energy distributors and the options that might be appropriate for the Board's consideration having regard to the Ontario context.

### **Invitation to Comment on Issues and PEG Report**

The following have been identified by Board staff as questions that are relevant to this consultation, and which can be informed by the PEG Report:

1. In light of developments in metering, CDM and demand side management ("DSM"), among possible others, is the implementation of further or modified revenue decoupling mechanisms for electricity and/or gas distributors warranted at this time and if so, why? For example, is the Board's current Lost Revenue Adjustment Mechanism adequate in light of the contemplated introduction of CDM targets for all electricity distributors in the Province?
2. What factors should be considered when assessing the suitability of Ontario's current mechanisms and of alternative approaches? Are any of these factors more or less important than others? If so, why?
3. What, if any, are the implications of the wide-spread deployment of smart meters for the Board's approach to revenue decoupling?
4. What scope for further or modified revenue decoupling might be appropriate? For example, should the impact of all variances from forecast in commodity demand be eliminated regardless of the cause (i.e., distributor-provided CDM/DSM programs, other CDM/DSM programs, the economy, weather, customer growth, etc.)? Why or why not?
5. Are there any alternative approaches, beyond those identified in the PEG Report, which better address revenue erosion due to changes in consumption? What are the costs, benefits and implications of implementing the alternative approach?

6. Is there a preferred approach (or elements of an approach) and if so, what are the important implementation matters that must be considered? What are the costs, benefits and implications of implementing the preferred approach or of refraining from doing so?
7. Can or should the preferred approach need to be the same in both the gas sector and the electricity sector? Why or why not? Would any other form of differentiation based, for example, on a specific distributor characteristic(s) be appropriate? If so, what might be the defining characteristic(s)?

The Board invites interested parties to comment in writing on the above issues and the PEG Report by **May 3, 2010** in accordance with the filing instructions set out below.

Participants that wish to put forward alternative proposals or options for consideration are encouraged to include in their comments not only a detailed description of each proposal or option (including steps necessary for implementation, where applicable), but also the underlying rationale and principles that support the proposal or option.

Written comments received in response to this letter will provide input that will be used by staff in the preparation of a staff Discussion Paper that will be issued for written comment. Subsequent steps in this consultation process will be announced in due course.

### **Stakeholder Meeting**

To facilitate the provision of written comments on the above issues and the PEG Report, the Board will host a stakeholder meeting to allow interested parties to engage PEG in a discussion regarding the content of the PEG Report. The stakeholder meeting will be held at the offices of the Ontario Energy Board on **April 19, 2010**, commencing at **9:30 a.m. and ending at 3:00 p.m.** Interested parties wishing to attend the stakeholder meeting should register in advance by email to Veronica Mendes ([veronica.mendes@oeb.gov.on.ca](mailto:veronica.mendes@oeb.gov.on.ca)) no later than **April 9, 2010**. Please include your name, organization, telephone number and e-mail address, and type "Revenue Decoupling Meeting" in the subject line.

## Cost Awards

Cost awards will be available under section 30 of the *Ontario Energy Board Act, 1998* to eligible participants for their participation in this consultation. The Board has determined that costs should be apportioned between rate regulated gas distributors and licensed electricity distributors based on the Board's Cost Assessment Model. This results in an allocation of 23.5% of costs to rate regulated gas distributors, and 76.5% of costs to licensed electricity distributors. These shares will be apportioned within the classes on the basis of distribution revenue.

**Appendix A contains important information regarding cost awards for this consultation, including in relation to eligibility requests and objections.** In order to facilitate a timely decision on cost eligibility, the deadlines for filing cost eligibility requests and objections will be strictly enforced.

## Filing Material with the Board

Two (2) paper copies of each filing must be provided, and should be sent to:

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto, Ontario M4P 1E4

The Board requests that interested parties make every effort to provide electronic copies of their filings in searchable/unrestricted Adobe Acrobat (PDF) format, and to submit their filings through the Board's web portal at [www.errr.oeb.gov.on.ca](http://www.errr.oeb.gov.on.ca). A user ID is required to submit documents through the Board's web portal. If you do not have a user ID, please visit the "e-filings services" webpage on the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca), and fill out a user ID password request. Additionally, interested parties are requested to follow the document naming conventions and document submission standards outlined in the document entitled "RESS Document Preparation – A Quick Guide" also found on the e-filing services webpage. If the Board's web portal is not available, electronic copies of filings may be filed by e-mail at [boardsec@oeb.gov.on.ca](mailto:boardsec@oeb.gov.on.ca).

Those that do not have internet access should provide a CD or diskette containing their filing in PDF format.

Filings to the Board must be received by the Board Secretary by **4:45 p.m.** on the required date. They must quote file number **EB-2010-0060** and include your name, address, telephone number and, where available, your e-mail address and fax number.

The PEG Report and all written comments received by the Board in response to this letter will be available for public inspection on the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca) and at the office of the Board during normal business hours.

Any questions relating to this consultation should be directed to Stephen Cain at 416-440-8144 or by e-mail to: [stephen.cain@oeb.gov.on.ca](mailto:stephen.cain@oeb.gov.on.ca). The Board's toll free number is 1-888-632-6273.

**DATED** at Toronto, March 22, 2010

**ONTARIO ENERGY BOARD**

*Original Signed By*

John Pickernell  
Assistant Board Secretary

Attachment: Appendix A Cost Awards

## Appendix A

To Letter Dated March 22, 2010  
EB-2010-0060

### Cost Awards

#### Cost Award Eligibility

The Board will determine eligibility for costs in accordance with its *Practice Direction on Cost Awards*. Any person intending to request an award of costs must file with the Board a written submission to that effect by **March 29, 2010**, identifying the nature of the person's interest in this process and the grounds on which the person believes that they are eligible for an award of costs (addressing the Board's cost eligibility criteria as set out in section 3 of the Board's *Practice Direction on Cost Awards*). An explanation of any other funding to which the person has access must also be provided, as should the name and credentials of any lawyer, analyst or consultant that the person intends to retain, if known. All requests for cost eligibility will be posted on the Board's website.

Rate-regulated natural gas distributors and licensed electricity distributors will be provided with an opportunity to object to any of the requests for cost award eligibility. If a natural gas or electricity distributor has any objections to any of the requests for cost eligibility, such objections must be filed with the Board by **April 12, 2010**. Any objections will be posted on the Board's website. The Board will then make a final determination on the cost eligibility of the requesting participants.

#### Eligible Activities

Cost awards will be available in relation to:

- the provision of written comments on the issues identified in this letter and the PEG Report, **to a maximum of 30 hours**; and
- preparation for, attendance at and reporting on the stakeholder meeting, **to a maximum of actual meeting time plus 50%** of meeting time for preparation and reporting.

#### Cost Awards

When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of its *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied. The Board expects that groups representing the same interests or class of persons will make every effort to communicate and co-ordinate their participation in this process.

The Board will use the process set out in section 12 of its *Practice Direction on Cost Awards* to implement the payment of the cost awards. Therefore, the Board will act as a clearing house for all payments of cost awards in this process. For more information on this process, please see the Board's *Practice Direction on Cost Awards* and the October 27, 2005 letter regarding the rationale for the Board acting as a clearing house for the cost award payments. These documents can be found on the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca) on the "Rules, Guidelines and Forms" webpage.