

**Ontario Energy
Board**

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**Commission de l'énergie
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BY E-MAIL AND WEB POSTING

January 18, 2011

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

**Re: Distribution Revenue Decoupling (EB-2010-0060) – Issuance of Staff Report
to the Board**

Background

On March 22, 2010, the Board issued a cover letter (the “March letter”) 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. As noted in the March letter, these mechanisms have now been in place for some time, and that a review is appropriate 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. 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.

PEG’s report, entitled *Review of Distribution Revenue Decoupling Mechanisms* (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.

The March letter invited stakeholders to provide written comments on a list of issues identified by Board staff and on the PEG Report. To facilitate the provision of written comments, the Board hosted a stakeholder meeting on April 19, 2010. The Board indicated that written comments received would provide input that staff would use in the preparation of a staff Discussion Paper also to be issued for written comment, and that subsequent steps in the consultation process would be announced in due course.

The October Letter

In a [letter](#) issued October 27, 2010 the Board directed that the revenue decoupling consultation would not proceed until the substantial completion of three new priority policy initiatives the output of which will be considered in the Board's future work on this subject. With a view to revisiting these matters as and when appropriate, staff prepared a Report to the Board (the "Staff Report") to summarize the information and stakeholder views provided to date and advise the Board on potential next steps. The Board's posting of the Staff Report should not be construed as necessarily indicating the Board's agreement with any view, conclusion or suggestion contained therein.

The Board is of the view that the issues and related matters raised in the course of this consultation can be considered for inclusion in other ongoing and prospective Board initiatives as appropriate. Accordingly, the present consultation can be drawn to a close at this time.

Cost Awards

The Board will address cost awards for this consultation by way of a Notice of Hearing to be issued in due course.

Dated at Toronto, January 18, 2011

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary