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## BY E-MAIL AND WEB POSTING

November 26, 2012

**To: All Licensed Electricity Distributors  
All Natural Gas Distributors  
All Licensed Electricity Transmitters  
Participants in EB-2010-0060  
All Other Interested Parties**

**Re: Revenue Decoupling for Distributors  
Board File Number: EB-2012-0410**

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The Board has initiated a project to complete the work begun in EB-2010-0060 on revenue decoupling for electricity and natural gas distributors. The Board indicated, when first initiating the renewed regulatory framework project in 2010, that the revenue decoupling consultation would move forward once the renewed regulatory framework initiative was substantially complete.

The Board will coordinate its consideration of revenue decoupling with the new ratemaking policies proposed in the renewed regulatory framework for electricity. One of the tenets of the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*<sup>1</sup> (the "RRFE policy") is to increase the planned period between reviews (and rebasing) to a minimum of five years. In the case of the index plan, the period could be indefinite. In light of these longer periods, the Board would like to examine how best to address changes in demand, including potential declines in average use. Therefore, reviewing decoupling mechanisms, potentially including rate design, is desirable to support implementation of RRFE and the various rate-setting options.

The Board has had a limited revenue decoupling mechanism in place for both natural gas and electricity distributors for some years. The Lost Revenue Adjustment

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Mechanism has been intended to overcome any reluctance of distributors to engage in conservation and demand management activities since it reduces their revenues. In addition, adjustments have been allowed for natural gas distributors to counter declining average use per customer.

This consultation will review the options for potential further revenue decoupling. The Board will gather more Ontario-specific data on with the objective to implement an appropriate revenue decoupling mechanism(s). In assessing different options the Board will consider the following:

- Stability of revenue for the utility and rates for the consumer;
- Regulatory simplicity;
- Consistency across distributors; and
- Conservation impacts.

The previous project, EB-2010-0060<sup>2</sup>, began in March 2010 with the release of a report by Pacific Economics Group Research entitled *Review of Distribution Revenue Decoupling Mechanisms*<sup>3</sup> (the “PEG Report”) and a request for stakeholder comments on the PEG Report and the list of issues provided. In January 2011, staff summarized the PEG Report and stakeholder comments in a Staff Report to the Board<sup>4</sup> (the “Staff Report”) that was posted along with the Board’s letter explaining the decision to close the project.

Since consistency in the approach to regulation for electricity and natural gas distributors is desirable, revenue decoupling for natural gas will continue to be considered under this project rather than through the separate processes identified in the Staff Report.

The Board is undertaking further research into the circumstance of Ontario distributors in the past several years including an examination of the following: average use per customer, fixed/variable revenue ratios and return on equity. The data will be posted on the Board’s website. Based on that information, the earlier comments from stakeholders on the PEG Report, and the direction given in the RRFE policy, the Board expects to release a draft Board policy in January 2013. The Board will solicit stakeholder comments in writing before finalizing the policy. Details regarding the stakeholder comment process will be provided at the time of the release of the draft policy.

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<http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory%20Proceedings/Policy%20Initiatives%20and%20Consultations/Distribution%20Revenue%20Decoupling>

<sup>3</sup> PDF available at the above website for Mar 22-10

<sup>4</sup> PDF available at the above website for Jan 18-11

If you have any questions regarding the consultation process, please contact Board staff by e-mail at [Laurie.Reid@OntarioEnergyBoard.ca](mailto:Laurie.Reid@OntarioEnergyBoard.ca) .

The Board's toll free number is 1-888-632-6273, and the Market Operations Hotline is 416-440-7604.

Yours truly,

*Original Signed By*

Kirsten Walli  
Board Secretary