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2012 Electricity Distribution Rates Backgrounder

There are 77 electricity distribution companies that deliver electricity to individual homes and businesses in Ontario. These companies (referred to as distributors) recover their costs from consumers through electricity distribution rates, including the costs to:

- design, build and maintain overhead and underground distribution lines, poles, stations and local transformers
- operate local distribution systems including smart meters
- provide customer service and emergency response.

Costs and rates vary from distributor to distributor depending on factors such as the age and condition of assets, geographic terrain and distance, and population density. The proportion of residential to commercial and industrial consumers can also contribute to cost differences between utilities.

In keeping with the [OEB Act](#), the Ontario Energy Board (the “Board”) sets just and reasonable electricity distribution rates. This helps ensure a reliable power supply.

Benefit to the Consumers

Before utilities can make any changes to their rates they are required to seek approval from the Board through a rate application. The Board reviews each rate application independently in a public process and approves the rates each distributor can charge.

It is the Board’s responsibility to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

Determining Distribution Rates – A Four-Year Cycle

As part of its regulation of electricity utilities, the Ontario Energy Board follows a multi-year process to set electricity distribution rates. The process is designed to encourage utilities to maximize their efficiency while generating the revenue required to reliably deliver electricity to consumers.

Cost of Service

Distributors typically follow a four-year rates cycle. It starts with a comprehensive review of revenue requirements (the amount of money needed to operate and maintain facilities, cover capital expenses and significant infrastructure investments). This type of review is called a cost of service (COS) application. The cost of service review is followed by three years of rate-setting known as the Incentive Regulated Mechanism (IRM) period.

Incentive Regulated Mechanism (IRM)

Under IRM, distributors are encouraged to file an application before the Board where rates are adjusted by the change in inflation minus a productivity factor. This encourages management to maximize the efficiency and productivity of their business by putting a cap on the distributor's prices.

An incremental capital module (ICM) designed to accommodate significant capital needs, can also be applied for during the IRM plan term.

Distributors can apply for a COS review more often but they must meet the criteria established to receive approval of the Board to process the application as filed. A distributor must clearly demonstrate why and how it cannot adequately manage its resources during the IRM period.

In any given year, a minority of Ontario's electricity distributors apply for a cost of service review. The Board sets distribution rates for the remaining electricity distributors using IRM.

The Board uses a similar IRM approach for setting Ontario natural gas distributors' rates (specifically Enbridge and Union). Great Britain has used IRM mechanisms in most regulated sectors, including Telecom, water, gas, electricity and rail services. IRM has also been used in telecom and energy (gas and electricity) regulation in a number of U.S. states.

Bill Impacts

Estimated residential consumer bill impacts of distribution rate changes are available on the Board's web-site. This summary provides estimated bill impacts by distributor and is updated as COS and IRM rates for individual distributors are announced.

The Board's consumer website also features interactive online bill calculators to help residential and small business consumers estimate their electricity or natural gas bills and compare those bill estimates with the contract price offered by an electricity retailer or gas marketer.

About the Board

The Ontario Energy Board regulates the province's electricity and natural gas sectors in the public interest. It envisions a viable and efficient energy sector with informed consumers and works toward this vision through regulation that is effective, fair and transparent.

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