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August 29, 2003

To: **All Licensed Electricity Distributors and Registered Parties to RP-1999-0034 and RP-2000-0069 Proceedings**

Re: **Initiation of Working Group on the Review of Service Quality Regulation Board File No. RP-2003-0190**

Section 1 of the Ontario Energy Board Act, 1998 states, in part, that:

1. The Board, in carrying out its responsibilities under this or any other Act in relation to electricity, shall be guided by the following objectives:

...

3. To protect the interests of consumers with respect to prices and the reliability and quality of electricity service.

To monitor the reliability and quality of electricity distribution and to check that adequate service levels are maintained, the Board adopted, as part of first-generation Performance-Based rate Regulation ("PBR"), a service quality regulatory regime whereby electricity distributors measure and report certain service quality and reliability indicators ("SQIs"). For most SQIs, the Board approved initial minimum standards. The Board determined that other aspects of service quality regulation, including remedial action and/or financial consequences of service degradation, should be considered, but that a proper assessment of these issues required experience with the measurement and reporting of the SQIs.

On October 28, 2002, the Board advised stakeholders of the planned phased development of a second-generation PBR ("PBR II") plan. A review of currently reported service quality indicators and associated standards, as well as consideration of other indicators and elements of service quality regulation, were identified as one of the components of PBR II plan development.

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In response to Bill 210, the Electricity Pricing, Conservation and Supply Act, 2002, the Board issued a letter on March 14, 2003 to electricity distributors and other stakeholders indicating changes in the sequencing of events. The Board noted that, while a determination of just and reasonable rates must take into account the adequacy and level of service quality, many aspects of service quality regulation, such as indicators to be reported, standards, and monitoring requirements, can be dealt with independently from rate-setting. As electricity distributors have been reporting their service performance for three years now, the Board considered it timely to review the SQIs and to further develop service quality regulation applicable to electricity distributors, and indicated that Board staff would be commencing consultations by mid-2003.

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Board staff are starting a working group to consider service quality regulation ("SQR"). Staff will also shortly be issuing a discussion paper on service quality regulation that will help to start informed consideration of pertinent issues in this area. The Board has assigned file number RP-2003-0190 to this matter. The Appendix to this letter provides a generic, but not necessarily exhaustive, list of issues to be considered by the SQR working group.

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It is expected that approximately 8 full day sessions, meeting approximately every two weeks, will be required to explore the various issues. The first meeting will be scheduled for September 18, 2003. Additional meetings may be necessary to finalize recommendations. Specific issues may be assigned to various sub-teams to be considered in greater detail. A proposal for a service quality regulation monitoring and compliance plan will be developed, with the recommendations of the working group considered in developing this proposal. The Board will provide an opportunity for comments on the proposal before finalizing its plan.

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Interested parties are advised that, if they wish to participate in the working group, they will be expected to actively contribute. Board staff note that participation may need to be limited to ensure that the working group is manageable in size. Funding is not available for participation in the working group.

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Other parties may wish to visit the Board's website to keep abreast of the working group's progress. The OEB has a website dedicated to the service quality regulation component of PBR II development:

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www.oeb.gov.on.ca/html/en/industryrelations/ongoingprojects_pbr2_sqrmain.htm

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The consultations are targeted to conclude by the fall of 2003. Board directions on a public regulatory process to consider the proposed service quality regulation will be issued in due course.

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Parties interested in participating in the Working Group on Service Quality Regulation are advised to notify the Board Secretary, **by 4:30 p.m. on September 12, 2003**. Please send your name, title, organization, address, e-mail address and phone and fax numbers to the Assistant Secretary at the address below. Failure to participate in the working group will not

preclude the right to make comments on the proposed service quality regulation, monitoring and compliance plan.

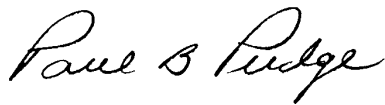
For further information on service quality regulation or the review process, please contact Keith Ritchie at 416-440-8124 or ritchike@oeb.gov.on.ca.

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Yours truly,

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A handwritten signature in black ink that reads "Paul B. Pudge". The signature is written in a cursive, flowing style.

Paul B. Pudge
Assistant Secretary

Review of Service Quality Regulation - Issues

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<u>Review of Service Quality Regulation - Issues</u>	
Based on a consideration of:	20
a) what elements can be included in a comprehensive service quality regulatory regime;	21
b) the experience to date in service quality monitoring in Ontario; and	22
c) the service quality regulatory issues that the Board specifically identified in the Decision with Reasons RP-1999-0034 as worthy of consideration, but where the Board felt that there was insufficient information on or experience with to implement as part of the first-generation service quality regime,	23
the following issues should be considered during the review of service quality regulation:	24
1) Review of the existing service quality indicators ("SQIs"), with an aim to establishing a precise definition and measurement of each indicator. Deletion of an SQI, where it is not serving its intended purpose, would also be considered.	25
2) Review of the current standards of existing SQIs, with the aim of assessing whether these standards are appropriate. If they are not appropriate then new standards should be determined. Where appropriate, standards for the reliability indicators should be established.	26
3) Consideration of additional or replacement indicators. MAIFI (Momentary Average Interruption Frequency Index), measuring the incidence of short power interruptions, was identified for research by the Board in the RP-1999-0034 Decision. Other operational indicators, or measures of customer complaints or customer satisfaction, could also be investigated.	27
4) The frequency of reporting (currently annual) and the periodicity (i.e. monthly, quarterly, annual) of reported performance should be considered.	28
5) Criteria for defining what constitutes degraded service need to established. Regulatory responses to service degradation, such as filing of remedial action reports or a variety of possible financial consequences, should be considered.	29
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- 6) Other matters - e.g. should there be a distinction in terms of reporting or standards for urban/rural or large/small utilities?
- 7) What should be the form and purpose of service quality audits and investigations by the Board and staff? The role of SQ audits increases in a comprehensive SQR plan, where there are regulatory impacts (remedial action plans and/or financial rewards and/or penalties) and hence increased importance in ensuring that performance is measured and reported accurately. Stakeholder input - both from LDCs and other interested parties - would be useful in the evolution of audit and investigation procedures as a component of the SQR plan.