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March 14, 2003

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

**Re: Update on Phased Development of Second-Generation Performance Based Rate Regulation**

On October 28, 2002, the Board issued a letter to stakeholders regarding its plan for the development in phases of a second-generation Performance Based Regulation plan ("PBR II").

In December 2002, the Government enacted legislation, Bill 210, the *Electricity Pricing, Conservation and Supply Act, 2002*, which requires that existing rate orders remain in effect until 2006 unless approval is granted by the Minister of Energy for an application for an amendment to be made to the Board.

After considering the impact of Bill 210, the Board has revised its plan for the development of PBR II. The major components will remain. These include:

- development of a "going-in" rates methodology, including rebasing, rate design and cost allocation, for setting rates in the first year of a new plan;
- the development of the price adjustment mechanism;
- treatment of Demand Side Management ("DSM"); and
- service quality regulation.

However, the sequencing and schedule of consultations has been revised. Details of the changes are discussed below.

#### Schedule Update for 2003

During 2003, the Board intends to move forward on three fronts: cost allocation, DSM and service quality regulation.

The cost allocation working group will be reactivated within the month. These consultations will continue to focus on issues related to cost allocation studies, in particular, the collection of load data.

In light of the emphasis placed on energy conservation and energy efficiency, the Board will bring forward its consideration of the role of the distributor in DSM. Board staff will initiate consultations in this area in the first half of 2003.

With respect to service quality regulation, the Board notes that distributors are required to measure and report certain service quality and reliability indicators ("SQIs") as a check that adequate service levels are maintained. Electricity distributors are currently reporting SQIs for the third year. Other aspects of service quality regulation, including remedial action and/or financial consequences of service degradation, were deferred to allow the Board and the industry to gain experience with the measurement and reporting of SQIs. The Board considers it timely to review the SQIs and to further develop service quality regulation applicable to electricity distributors. Staff will begin consultations in this area by mid-2003.

#### PBR II Development Plans Beyond 2003

The Board will also be pursuing the following consultations:

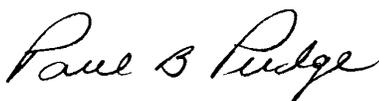
- Seeking stakeholder input, beginning in 2004, on rebasing of distribution rates at the end of the current regime;
- Addressing rate design issues that have been identified during the current PBR plan or result from the recent consultant's report to the Government. The Board will schedule consultations on specific issues as appropriate; and
- Examination of the rate adjustment mechanism, including updating prior work on industry productivity growth, and the use of alternative yardstick analyses. Board staff is expected to undertake studies and consultations in this area during 2004 and 2005.

#### Further Information

Board staff will be issuing further details on the consultations planned for 2003 shortly.

For further information on cost allocation, please contact John Vratsidis at 416-440-8122 or [vratsjo@oeb.gov.on.ca](mailto:vratsjo@oeb.gov.on.ca); for further information on service quality regulation please contact Keith Ritchie at 416-440-8124 or [ritchike@oeb.gov.on.ca](mailto:ritchike@oeb.gov.on.ca); and for further information on DSM, please contact Lisa Brickenden at 416-440-8113 or [brickeli@oeb.gov.on.ca](mailto:brickeli@oeb.gov.on.ca).

Yours truly,



Paul B. Pudge  
Board Secretary