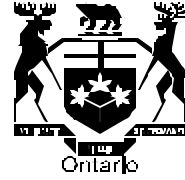


**Ontario Energy
Board**
P.O. Box 2319
26th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
26e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



December 21, 2001

To: All Electricity Distribution Utilities

Re: Filing Guidelines for March 1, 2002 Distribution Rate Adjustments

Introduction

As the first year of the three year Performance Based Regulation Plan (the "PBR Plan") for electricity distribution utilities is nearing completion, the Ontario Energy Board (the "Board") is preparing for the annual PBR rate adjustment to take place on March 1, 2002.

The rate adjustments that will take place on March 1, 2002 include:

- S the Input Price Index (IPI) and Productivity Factor (PF) Adjustment;
- S incremental revenue associated with MARR;
- S recovery of the 2001 PILs deferral account allowance;
- S pass through of the 2002 PILs proxy (estimate);
- S recovery of transition (re-engineering) costs;
- S recovery of qualifying Z-Factor amounts;
- S Late Payment Charge changes (if applicable); and
- S other utility-specific adjustments.

The Board will be reviewing a large number of applications within a very short time period. The Board therefore intends to review first those applications that adhere to these filing guidelines. Applications that do not adhere to these guidelines or contain other proposed changes will be reviewed after those applications that have followed the filing guidelines and do not propose other changes.

Board Staff has developed a Rate Adjustment Model (RAM or RA Model) to be used by the utilities in applying for the above rate adjustments. The RAM is similar to the RUD Model and is available for downloading from the Board's website (www.oeb.gov.ca) under "What's New?". Documentation of the RAM is attached to this letter as Appendix "A".

- **IPI-PF Adjustment**

As noted in the Board's Rate Handbook, distribution rates are to be adjusted each year for two factors, input price changes (IPI) and productivity. The Board set the Productivity Factor (PF) for each year of the first PBR Plan at 1.5%. To facilitate the rate adjustment process for March 1, 2002, the Board intends to release the IPI measure no later than January 21, 2002.

A rate increase due to this adjustment may be declined by the utilities. However, as provided for in the Rate Handbook, utilities are required to implement a rate reduction.

- **Incremental Revenue Associated with MARR**

The Rate Handbook indicates that the incremental revenue associated with the Market Adjusted Revenue Requirement (MARR) for each utility should be implemented in three equal installments. For most utilities, the first installment was implemented in 2001 and the second installment will be added and recovered in rates beginning March 1, 2002.

- **2001 PILs Deferral Account Allowance**

Ontario electricity distribution utilities have been subject to Payments in Lieu of Taxes (PILs) since October 1, 2001. These expenses for 2001 have not been included in distribution rates but have been recorded in a deferral account. The Board has issued a methodology for utilities to calculate the 2001 PILs deferral account allowance that may be recoverable. The methodology is shown in Appendix "B" to these guidelines.

- **2002 PILs Proxy (Estimate)**

Rate adjustments to reflect the 2002 Payments in Lieu of Taxes (PILs) will also be made on March 1, 2002. The Board has issued a methodology for utilities to calculate the recoverable 2002 PILs proxy which is attached as Appendix "B" to these guidelines.

- **Transition (Re-engineering) Costs**

On November 9, 2001 the Board issued a letter to all electricity distribution utilities, outlining a process for the interim recovery of certain transition costs. Recovery of transition costs will be based on amounts reported in the utility's trial balance already filed with the Board and that reflect the audited financial results of the utility as at December 31, 2000. Should the utility seek rate recovery of accumulated transition costs for a period beyond December 31, 2000, it will need to undertake a focused audit of the balance accumulated in Account 1570 for the period beyond December 31, 2000.

In its November 9, 2001 letter, the Board established an interim recovery limit. Notwithstanding this limit, recovery of transition costs will be reviewed in conjunction with other financial matters impacting the annual rate adjustment (e.g. Incremental MARR, PILs, IPI-PF, etc.). Transition cost recovery may be deferred in whole or in part if the Board considers the resulting rate impact excessive.

- **Qualifying Z-Factor Amounts**

As per the Rate Handbook, Z-Factor amounts were to be filed with the Board on December 1, 2001. The Board's November 9, 2001 letter to all electricity distribution utilities indicated that these filings were to be delayed until the March 1, 2002 distribution rate adjustment guidelines were provided. These are costs recorded in Account 1572 of the Board's Accounting Procedures Handbook (APH). Utilities that file for recovery of these costs must provide appropriate justification in accordance with the Z-factor criteria in the Rate Handbook and the APH.

- **Late Payment Charge Changes** (if applicable)

This applies to those utilities that have not changed the traditional 5% late payment policy practice. The Board issued a letter on October 1, 2001 to all electricity distributors indicating that they should review their late payment policies and establish collection policies in accordance with common commercial practices for overdue payments, consistent with the specific requirements of the Criminal Code, section 347.

In making this application, utilities who wish to recover foregone revenue due to a change in late payment policy should refer to section 9.3 of the Rate Handbook. Applicants are reminded to provide sufficient documentation in support of the calculated foregone revenue.

- **Other Utility-Specific Adjustments**

This applies to those utilities that have been directed or authorized by the Board in previous Decisions/Rate Orders to bring forward outstanding matters that require Board determination. If a utility does not wish to proceed with a proposal previously reviewed by the Board, it must identify these matters in the Manager's Summary.

Prudential Requirement and Cost of Power Related Costs

At this time, no specific incremental costs related to prudential requirements and/or cost of power related costs have been identified. Therefore no adjustments related to these items should be made. Should rate adjustments for these items be necessary, the Board intends to initiate a generic process for adjusting rates. In the interim, utilities are referred to Article 480 of the APH for guidance in recording any such costs.

Filing Requirements

Utilities should comply with the following filing guidelines:

- S The deadline for filing an application for the March 1, 2002 distribution rate adjustment is January 25, 2002.**
- S Each application should include a completed RAM Analysis and a comprehensive Manager's Summary explaining all rate adjustments applied for and any deviations from the standard model. The Manager's Summary should include an introduction that clearly indicates the rate adjustments that are included in the application. Six copies of all written material should be filed as well as a disk that contains the completed RA Model.
- S Each application should include completed PILs spreadsheets for the 2001 and 2002 PILs amounts that are to be recovered in rates.
- S Each application should include detailed justification and evidence in support of Z-Factor and transition costs sought for recovery in rates.

Bill Impacts

While the Board is concerned that the bill impacts of the March 1, 2002 rate adjustments not be excessive, no specific bill impact guideline will be issued at this time.

Utilities are reminded that certain elements of the March 1, 2002 rate adjustment are

optional. The utility may choose to forego increases in rates associated with the incremental revenue associated with MARR, transition costs and increases associated with the IPI-PF calculation. The Board may on its own initiative defer any increase associated with transition costs if their inclusion would result in excessive bill impacts.

As part of the Manager's Summary, utilities should identify the customer classes or groups that show significant bill impacts and what mitigation measures the utility proposes to undertake.

For More Information

Should a utility have any questions or concerns regarding the March 1, 2002 distribution rate adjustment or the RAM, please contact Harold Thiessen, 416-440-7637, e-mail: thiessha@oeb.gov.on.ca

Yours truly,

Paul B. Pudge
Board Secretary