



BY EMAIL AND WEB POSTING

August 27, 2021

To: All Licensed Electricity Distributors

Re: Incentive Rate Setting: 2020 Benchmarking Update for Determination of 2021 Stretch Factor Assignments - Board File No.: EB-2010-0379

The Ontario Energy Board (OEB) benchmarks electricity distributors' total cost performance each year. The benchmarking results are used to determine stretch factors that can reduce the rates charged to customers for those distributors whose rates are adjusted using the annual Incentive Rate Mechanism (IRM). Stretch factors incent distributors to perform better. As such, they promote, recognize and reward distributors for cost efficiency improvements, which in turn leads to lower distribution costs and rates.

The OEB commissioned Pacific Economics Group Research, LLC (PEG) to perform the benchmarking analysis according to the OEB-approved methodology, and their Report to the Ontario Energy Board (PEG Report) based on 2020 data is posted on the [Performance Assessment](#) page of the OEB's website. The benchmarking performance results and stretch factor assignments for the 59 electricity distributors are set out in the PEG Report.

The OEB notes the following regarding overall industry cost performance:

- The electricity distribution sector has shown consistent cost performance improvement. The average level of cost performance in 2020 for the 59 distributors was 11.3% lower than the expected cost, and this builds upon the cost performance improvement in previous years (i.e., costs were lower than the expected cost by 7.8% in 2019, 6.2% in 2018 and 4.9% in 2017).
- All 4 of the distributors whose stretch factor assignments have changed from 2020 to 2021 have moved to a lower stretch factor assignment based on improved cost performance.

- The overall trend is indicative of improved cost performance on average. The OEB will continue to monitor to assess whether these improvements are sustained.

The table below shows the 4 distributors whose 2021 stretch factor assignments have changed from the previous year's update. The amounts shown in brackets represent the downward percentage adjustment to the IRM formula for the 2022 IRM rate-setting process. The stretch factor assignments of all other distributors remain the same as assigned in the previous year's update results (i.e., 2020 stretch factor assignments).

Company Name	2020 stretch factor assignment	2021 stretch factor assignment
Hearst Power Distribution Company Limited	Cohort II (0.15)	Cohort I (0.00)
Newmarket-Tay Power Distribution Ltd.	Cohort III (0.30)	Cohort II (0.15)
Rideau St. Lawrence Distribution Inc.	Cohort III (0.30)	Cohort II (0.15)
Welland Hydro-Electric System Corp.	Cohort II (0.15)	Cohort I (0.00)

The OEB currently has a proceeding under way to review the inflation factors that are to be used to set IRM rates for the year 2022. This proceeding was initiated on the OEB's own motion given that preliminary calculations for 2022 rate adjustments suggest that the inflation indices typically used by the OEB may not be representative of the inflation that electricity and natural gas utilities will experience in 2022. Of particular note is the increase in the Average Weekly Earnings (AWE) component from 2019 to 2020. The OEB's benchmarking approach compares distributors' total cost performance relative to an expected cost, with the expected cost being a function of multiple variables including the AWE as the variable that represents inflation-adjusted labour costs. In its Report, PEG acknowledges the increase in the AWE from 2019 to 2020, and also notes that because the stretch factors are based on three-year averages of cost performance, the effect of a temporary increase in labour prices is mitigated by the inclusion of two years with more typical price growth. OEB staff's assessment is that the increase in the AWE has not affected any distributor's stretch factor assignment.

Any inquiries relating to this letter should be directed to the OEB's Industry Relations Enquiry e-mail at IndustryRelations@oeb.ca.

Yours truly,

Original Signed By

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Registrar