

**Ontario Energy  
Board**  
P.O. Box 2319  
27th 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  
27e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone: 416- 481-1967  
Télécopieur: 416- 440-7656  
Numéro sans frais: 1-888-632-6273



**BY WEB POSTING**

August 23, 2018

To: All Licensed Electricity Distributors

**Re: Incentive Rate Setting: 2017 Benchmarking Update for Determination of  
2018 Stretch Factor Rankings - Board File No.: EB-2010-0379**

Annually, the Ontario Energy Board (OEB) benchmarks the total cost performance of the 65 electricity distributors. The rankings from the benchmarking are used to assign stretch factors that can reduce the rates for those distributors whose rates will be adjusted using the Incentive Rate Mechanism (IRM) (expected to be about 55) in the 2019 rate setting process. The stretch factor assignments are based on the results of a benchmarking study designed to measure individual distributors' cost efficiency.

The incentive rate setting rewards distributors commensurate with their total cost performance. Each distributor is assigned to one of five groups, or cohorts, with the best cost performers in Cohort I and the poorest cost performers in Cohort V. The distributors in Cohort I get no downward rate adjustment. The distributors in the lower cohorts get a downward rate adjustment ranging from 0.15% in Cohort II to 0.60% in Cohort V. The stretch factors incent distributors, and as such, promote, recognize and reward distributors for cost efficiency improvements, which in turn lead to lower distribution costs and rates.

The OEB commissioned Pacific Economics Group Research (PEG) to perform the benchmarking analysis according to an OEB-approved methodology. The most recent update based on 2017 data has been received and is posted on the OEB website.

The OEB notes the following regarding the overall industry's cost performance:

- The trend of the overall results is encouraging. The average level of cost performance in 2017 (4.41% lower than forecast cost) builds upon cost performance improvement in previous years. Previous years have shown lower levels of performance improvements (i.e., lower than forecast cost of 2.91% in 2016, 2.57% in 2015 and 2.47% in 2014).

- Of the 10 distributors whose rankings have changed from 2017 to 2018, seven have moved to a lower stretch factor ranking based on improved cost performance while the other three have moved to a higher stretch factor ranking.
- Newly formed Alectra Utilities Corporation in 2017 is being assigned a stretch factor for the first time (Cohort 3 for 2018 stretch factor). The historical performance of the four amalgamated or acquired distributors suggests that Alectra Utilities Corporation would have been assigned to Cohort 3 for the 2017 stretch factor had it existed in 2016.
- The overall trend is indicative of improved cost performance on average. The OEB will continue to monitor to determine whether these improvements are sustained.

The table below shows the 10 distributors whose 2018 cohort and stretch factor assignments have changed, and the single distributor being assigned a stretch factor for the first time. The amounts shown in brackets represent the downward percentage adjustment to reduce the rates during the 2019 IRM rate setting process. Four distributors (Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro One Brampton Inc., and Powerstream Inc.) have been removed from the benchmarking due to amalgamations and acquisitions that occurred in 2017. The stretch factor assignments of all other distributors remain the same as assigned in the previous year (i.e., 2017 stretch factor ranking).

<b>Company Name</b>	<b>2017 Stretch factor ranking</b>	<b>2018 Stretch factor ranking</b>
<b>Atikokan Hydro Inc.</b>	Cohort 3 (0.30)	Cohort 4 (0.45)
<b>EnWin Utilities Ltd.</b>	Cohort 4 (0.45)	Cohort 3 (0.30)
<b>Greater Sudbury Hydro Inc.</b>	Cohort 4 (0.45)	Cohort 3 (0.30)
<b>Lakeland Power Distribution Ltd.</b>	Cohort 3 (0.30)	Cohort 2 (0.15)
<b>London Hydro Inc.</b>	Cohort 2 (0.15)	Cohort 3 (0.30)
<b>Orangeville Hydro Limited</b>	Cohort 3 (0.30)	Cohort 2 (0.15)
<b>Renfrew Hydro Inc.</b>	Cohort 4 (0.45)	Cohort 3 (0.30)
<b>St. Thomas Energy Inc.</b>	Cohort 3 (0.30)	Cohort 2 (0.15)
<b>Thunder Bay Hydro Inc.</b>	Cohort 3 (0.30)	Cohort 4 (0.45)
<b>Waterloo North Hydro Inc.</b>	Cohort 4 (0.45)	Cohort 3 (0.30)
<b>Alectra Utilities Corporation</b>	Not Applicable	Cohort 3 (0.30)

Any inquiries regarding the above matter should be directed to the OEB's Industry Relations hotline at 416-440-7604 or by e-mail to [IndustryRelations@oeb.ca](mailto:IndustryRelations@oeb.ca). The OEB's toll free number is 1-888-632-6273.

Yours truly,

Kirsten Walli,  
Board Secretary