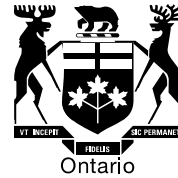


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## **BY E-MAIL AND WEB POSTING**

March 20, 2008

**To:** All Licensed Electricity Distributors  
All Participants in Proceedings EB-2006-0088 and EB-2006-0089  
All Participants in Proceeding EB-2006-0268

**Re: Comparison of Distributor Costs  
Release of Final Consultant's Report  
Board File No.: EB-2006-0268**

The Board released today a final report from Pacific Economics Group, LLC dated March 20, 2008 on benchmarking the costs of Ontario power distributors ("PEG Report"). The report can be found on the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

In April 2007, the Board released a preliminary PEG report on benchmarking for public comment and received written comments from 13 parties. A two-day technical conference was convened in September 2007. Consumer groups, distributors, PEG and other experts, and Board staff discussed data issues, PEG's proposed methodology and its draft conclusions, and how the Board might use benchmarking data.

In its final report, PEG recommends ranking the performance of distributors based on unit cost indexes, which are derived from PEG's econometric cost model. The report also comments on an alternative staff proposal that involves comparing a distributor's OM&A costs per customer to the costs of other distributors in its peer group. If the staff proposal were to be applied, PEG recommends 12 peer groups based on geographic location, operating scale, and the extent to which a distributor's system is underground.

The conclusions in the PEG report represent the views of PEG. While the Board is not at this time adopting any recommendations in the report with respect to the benchmarking of distributor costs, the Board will be informed by any additional comment parties may wish to make on the uses of cost benchmarking in consideration of the PEG Report.

The Board is also currently conducting a consultation with respect to 3<sup>rd</sup> Generation Incentive Regulation ("3<sup>rd</sup> Generation IRM") (EB-2007-0673) and will reserve further consideration of cost benchmarking until after stakeholder comments are received concerning 3<sup>rd</sup> Generation IRM.

The Board's audit group will continue to update and publicly release information used to support the comparative analysis study work when 2007 data from distributors becomes available.

If you wish to provide written comments on the PEG Report on benchmarking of costs, please direct your comments to Board Secretary at [BoardSec@oeb.gov.on.ca](mailto:BoardSec@oeb.gov.on.ca) and reference Board File No. EB-2006-0268. Please respond by 4:45 p.m. on April 28, 2008. All comments received will be posted on the Board's website.

### **Cost Awards**

A July 10, 2007 Board decision set out the parties that are eligible for cost awards in connection with commenting on the draft PEG report and participating in the September 2007 technical conference. Eligible parties who seek an award of costs shall file their cost submissions in accordance with the *Board's Practice Direction on Cost Awards* and shall submit their claims by May 30, 2008.

Any questions relating to the PEG Report should be directed to Market Operations Hotline by e-mail at [Market.Operations@oeb.gov.on.ca](mailto:Market.Operations@oeb.gov.on.ca) or by telephone at 416-440-7604. Please include on the subject line "Distributors' Costs, file EB-2006-0268".

Yours truly,

*Original signed by*

Kirsten Walli  
Board Secretary