

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



December 1, 2011

To: All Licensed Electricity Distributors

**Re: Board Determination of Stretch Factor Rankings for 2012
3rd Generation Incentive Regulation Applications (IRM3)**

The Board's policy approach to 3rd generation incentive regulation (IRM3) is set out in the "Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors" dated July 14, 2008. The Board determined that stretch factors will be a feature of the IR mechanism, and that benchmarking will provide the architecture for their assignment to distributors.

Specifically, the Board determined that it will use the results of two benchmarking evaluations to divide the Ontario industry into three efficiency cohorts. The two evaluations will be compared and those distributors that rank superior in both will be assigned to Group 1. Those distributors that rank inferior in both will be assigned to Group 3. All other distributors, including those that rank superior or inferior in only one of the evaluations, will be included in the broad middle cohort, Group 2.

A Supplemental Report of the Board setting out the Board's determination of the values for the productivity factor, the stretch factors, and the capital module materiality threshold for use in IRM3 was issued on September 17, 2008. With regard to appropriate stretch factor values for the three groups, the Board determined the following:

Table 1: Stretch Factor Values

Group	Benchmarking Evaluations	Stretch Factor Value
1	Statistically superior on the econometric benchmarking model and in the top quartile on the unit cost benchmarking model	0.2%
2	All other distributors, including those that rank superior or inferior in only one of the evaluations	0.4%
3	Statistically inferior on the econometric benchmarking model and in the bottom quartile on the unit cost benchmarking model	0.6%

The Board confirmed its determinations made on July 14, 2008 on the model it will use to assign stretch factors to distributors and that each year the cohorts for the entire sector will be re-evaluated.¹ This approach will recognize and reward distributors for efficiency improvements during the term of the IR plan.

As the result of a RFP bid process, the Board chose Power System Engineering, Inc. (PSE) to prepare the stretch factor update analysis for the IRM3 applications. In its report which can be found on the Board's website, PSE has followed the same methodology as for 2009, 2010 and 2011 stretch factors and has ranked the distributors into three efficiency cohorts.²

For the 2012 rate year, the Board has determined and confirmed the following stretch factor assignments for those distributors whose rates are set using IRM3.

¹ <http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory+Proceedings/Policy+Initiatives+and+Consultations/3rd+Generation+Incentive+Regulation>

² <http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory+Proceedings/Applications+Before+the+Board/Electricity+Distribution+Rates/3rd+Gen+Stretch+Factors>

Table 2: 2012 Stretch Factor Assignments for IRM3 Applications

Distributor	Stretch Factor Group	Stretch Factor
Chatham-Kent Hydro Inc.	1	0.2%
Festival Hydro Inc.	1	0.2%
Grimsby Power Inc.	1	0.2%
Hydro 2000 Inc.	1	0.2%
Hydro Hawkesbury Inc.	1	0.2%
Hydro One Brampton Networks Inc.	1	0.2%
Kitchener-Wilmot Hydro Inc.	1	0.2%
Lakefront Utilities Inc.	1	0.2%
Middlesex Power Distribution Corp.	1	0.2%
Northern Ontario Wires Inc.	1	0.2%
Renfrew Hydro Inc.	1	0.2%
Waterloo North Hydro Inc.	1	0.2%
Atikokan Hydro Inc.	2	0.4%
Bluewater Power Distribution Corp	2	0.4%
Brantford Power Inc.	2	0.4%
Burlington Hydro Inc.	2	0.4%
Cambridge and North Dumfries Hydro	2	0.4%
Canadian Niagara Power Inc. Fort Erie & Eastern Ontario Power	2	0.4%
Chapleau Public Utilities Corporation	2	0.4%
Clinton Power Corporation	2	0.4%
Cooperative Hydro Embrun Inc.	2	0.4%
E.L.K. Energy Inc.	2	0.4%
Enersource Hydro Mississauga Inc.	2	0.4%
Espanola Regional Hydro Distribution	2	0.4%
Essex Powerlines Corporation	2	0.4%
Fort Frances Power Corp.	2	0.4%
Greater Sudbury Hydro Inc.	2	0.4%
Guelph Hydro Electric Systems Inc.	2	0.4%
Haldimand County Hydro Inc.	2	0.4%
Halton Hills Hydro Inc.	2	0.4%

Distributor	Stretch Factor Group	Stretch Factor
Hearst Power Distribution Co. Ltd.	2	0.4%
Horizon Utilities Corporation	2	0.4%
Hydro One Networks Inc.	2	0.4%
Hydro Ottawa Limited	2	0.4%
Innisfil Hydro Distribution Systems Inc.	2	0.4%
Kenora Hydro Electric Corporation Ltd.	2	0.4%
Kingston Hydro Corporation	2	0.4%
Lakeland Power Distribution Limited	2	0.4%
London Hydro Inc.	2	0.4%
Midland Power Utility Corporation	2	0.4%
Milton Hydro Distribution Inc.	2	0.4%
Newmarket-Tay Power Distribution Ltd.	2	0.4%
Niagara Peninsula Energy Inc.	2	0.4%
Niagara-on-the-Lake Hydro Inc.	2	0.4%
Norfolk Power Distribution Inc.	2	0.4%
North Bay Hydro Distribution Ltd.	2	0.4%
Oakville Hydro Electricity Distribution	2	0.4%
Orangeville Hydro Limited	2	0.4%
Orillia Power Distribution Corporation	2	0.4%
Oshawa PUC Networks Inc.	2	0.4%
Ottawa River Power Corporation	2	0.4%
Parry Sound Power Corporation	2	0.4%
Peterborough Distribution Incorporated	2	0.4%
PowerStream Inc. (Barrie & South)	2	0.4%
PUC Distribution Inc.	2	0.4%
Rideau St. Lawrence Distribution Inc.	2	0.4%
St. Thomas energy Inc.	2	0.4%
Sioux Lookout Hydro Inc.	2	0.4%
Thunder Bay Hydro Distribution	2	0.4%
Tillsonburg Hydro Inc.	2	0.4%
Veridian (including Gravenhurst)	2	0.4%
Wasaga Distribution Inc.	2	0.4%
Welland Hydro Electric System Corp.	2	0.4%

Distributor	Stretch Factor Group	Stretch Factor
Westario Power Inc.	2	0.4%
West Coast Huron Energy Inc.	2	0.4%
Whitby Hydro Electric Corporation	2	0.4%
Woodstock Hydro Services Inc.	2	0.4%
Algoma Power Inc.	3	0.6%
Brant County Power	3	0.6%
Centre Wellington Hydro Inc.	3	0.6%
COLLUS Power Corporation	3	0.6%
EnWin Utilities Ltd.	3	0.6%
Erie Thames Powerlines Corporation	3	0.6%
Port Colborne (CNP)	3	0.6%
Toronto Hydro-Electric System Limited.	3	0.6%
Wellington North Power Inc.	3	0.6%
West Perth Power Inc.	3	0.6%

All queries on the stretch factor rankings for 2012 should be directed to the Board's Market Operations hotline, at 416-440-7604 or market.operations@ontarioenergyboard.ca

Yours truly,

Original signed by

Kirsten Walli
Board Secretary