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BY E-MAIL AND WEB POSTING

January 29, 2009

To: All Participants in Consultation EB-2007-0673
All Licensed Electricity Distributors

Re: **Board Determination of Stretch Factor Rankings for
3rd Generation Incentive Regulation for Electricity Distributors
Board File No. EB-2007-0673**

Today, the Board issued its “Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors”. A copy of the Addendum is attached and is available from the Board’s website at www.oeb.gov.on.ca. The Addendum sets out the Board’s determination on membership of the three distributor groupings for stretch factor assignments for the 2009 rate year.

The Board’s policy approach to 3rd generation incentive regulation (3rd Generation IR) is set out in the “Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors” dated July 14, 2008. In the July 14, 2008 Report, 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.

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 3rd Generation IR was issued on September 17, 2008. In the Supplemental Report, recognizing that the risk of misclassification cannot be ruled out, the Board stated its intention to undertake further work on the model it will use to assign stretch factors to distributors and to consult with stakeholders to identify whether the Board could improve the grouping approach and reduce any potential for misclassification.

On November 21, 2008, and updated on December 3, 2008, the Board posted sensitivity analysis on the model prepared by the Pacific Economics Group (“PEG”). An overview of Board staff’s work in support of PEG’s analysis and of staff’s proposal in relation to the treatment of low voltage (“LV”) charges was set out in an attachment to the November 21, 2008 letter. Stakeholders were invited

to provide written comments on Board staff's overview and proposal as well as on the results of PEG's sensitivity analysis.

The Board received written comments from 14 stakeholders. The Board has considered these comments and has confirmed its determinations on the model it will use to assign stretch factors to distributors and on the membership of the three distributor groupings for stretch factor assignments for the 2009 rate year. The Board will adjust the stretch factor in each distributor's 3rd Generation IR model at the same time that the inflation index is adjusted in March, 2009.

Issuance of this determination completes the consultation process which began in August of 2007. The Board thanks all participants for their contributions. The Board will address the issue of cost awards for this consultation by separate correspondence to be issued shortly.

All documents related to this consultation are available for public inspection on the Board's web site at www.oeb.gov.on.ca and at the office of the Board during normal business hours. Please contact the Market Operations hotline at 416-440-7604 or by e-mail at market.operations@oeb.gov.on.ca with any questions. The Board's toll-free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment: Addendum to the Supplemental Report of the Board on 3rd
Generation Incentive Regulation for Ontario's Electricity Distributors