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BY E-MAIL AND WEB POSTING

March 10, 2010

To: All Licensed Electricity Distributors

**Re: Board Determination of Stretch Factor Rankings for 2010
3rd Generation Incentive Regulation Applications (IRM3)
EB-2009-0392**

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. 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.

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 3rd Generation IR 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-evaluated¹. 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 2010 EDR IRM3 applications. PSE will prepare the 2011 update to include 2009 distributor data in the fall of 2010. In its report which can be found on the Board's website, PSE has followed the same methodology as for 2009 stretch factors and has ranked the distributors into three efficiency cohorts.

For the 2010 rate year, the Board has determined and confirmed the following stretch factor assignments for the distributors that applied for rates based on the IRM3 mechanism.

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

Table 2: 2010 Stretch Factor Assignments for IRM3 Applications

Distributor	Stretch Factor Group	Stretch Factor
1. Atikokan Hydro Inc.	2	0.4%
2. Barrie Hydro Distribution Inc.	1	0.2%
3. Bluewater Power Distribution Corp.	2	0.4%
4. Brantford Power Inc.	2	0.4%
5. Centre Wellington Hydro Inc.	3	0.6%
6. CNPI - Eastern Ontario Power	2	0.4%
7. CNPI - Fort Erie	2	0.4%
8. CNPI - Port Colborne	3	0.6%
9. Chapleau Public Utilities Corporation	3	0.6%
10. COLLUS Power Corporation	2	0.4%
11. Enersource Hydro Mississauga Inc.	2	0.4%
12. EnWin Utilities Ltd.	3	0.6%
13. Erie Thames Powerlines Corporation	3	0.6%
14. Espanola Regional Hydro Distribution	2	0.4%
15. Greater Sudbury Hydro Inc.	3	0.6%
16. Guelph Hydro Electric Systems Inc.	2	0.4%
17. Halton Hills Hydro Inc.	2	0.4%
18. Horizon Utilities Corporation	2	0.4%
19. Hydro 2000 Inc.	1	0.2%
20. Hydro One Remote Communities Inc.	N/A	N/A
21. Hydro Ottawa Ltd.	2	0.4%
22. Innisfil Hydro Distribution Systems Inc.	2	0.4%
23. Lakefront Utilities Inc.	2	0.4%
24. Lakeland Power Distribution Limited	2	0.4%
25. London Hydro Inc.	2	0.4%
26. Midland Power Utility Corporation	2	0.4%
27. Niagara-on-the-Lake Hydro Inc.	2	0.4%
28. Norfolk Power Distribution Inc.	2	0.4%
29. Northern Ontario Wires Inc.	1	0.2%
30. Oshawa PUC Networks Inc.	2	0.4%
31. Peterborough Distribution Incorporated	2	0.4%
32. PowerStream Inc.	2	0.4%
33. PUC Distribution Inc.	2	0.4%
34. Rideau St. Lawrence Distribution Inc.	2	0.4%
35. Sioux Lookout Hydro Inc.	2	0.4%
36. Thunder Bay Hydro Distribution	2	0.4%
37. Tillsonburg Hydro Inc.	2	0.4%
38. Welland Hydro-Electric System Corp.	2	0.4%
39. Wellington North Power Inc.	2	0.4%
40. Westario Power Inc.	2	0.4%
41. West Coast Huron Energy Inc.	3	0.6%

Note: The full list of stretch factors can be found in the report prepared by Power System Engineering, Inc. located on the Board's website.

All queries on the Stretch Factor Rankings for 2010 should be directed to the Board's Market Operations hotline, at 416-440-7604 or market.operations@oeb.gov.on.ca.

Yours truly,

Original signed by

John Pickernell
Assistant Board Secretary