

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
EXISTING														
Productivity	Total Factor Productivity growth	Total factor productivity represents a comprehensive measure of the extent to which companies convert inputs into outputs.	E	H	D	<p>Under indexed based method – the ratio of an output quantity index to an input quantity index.</p> $TFP = \frac{Output\ Quantities}{Input\ Quantities}$ <p>The growth trend in a TFP trend index is the difference between the trends in the component output quantity and input quantity indexes.</p> $trend\ TFP = trend\ Output\ Quantities - trend\ Input\ Quantities$ <p>The output quantity index of an industry summarizes trends in the workload that it performs. If output is multidimensional, the growth in each output quantity dimension considered is measured by a sub-index. The growth in the output quantity index depends on the growth in the quantity sub-indices.</p> <p>The input quantity index of an industry summarizes trends in the amounts of production inputs used. TFP grows when the output quantity index rises more rapidly (or falls less rapidly) than the input quantity index. TFP can rise or fall in a given year but in most industries typically trends upward over time.</p>	The long-run trend in TFP growth for the regulated industry is used as the productivity factor portion of the “X-factor” under the Board’s indexed incentive regulation rate-setting.	Distribution rates are notionally linked to performance through the X-factor. When distributors “beat” the long run TFP trend reflected in the X-factor, they are allowed to retain any achieved productivity gains.	M-H	H	H	H	H	M
Overall cost performance	Efficiency ranking	Benchmarking evaluations are used to carry out comparative cost analysis so as to divide the Ontario industry into three efficiency “cohorts” for the purpose of assigning stretch factors to distributors.	E	H	D	Econometric benchmarks and unit cost benchmarks (see Appendix)	Relative cost performance	Distributors are assigned to one of three groups with stretch factors based on their efficiency as determined through comparative cost analysis. Using the resultant efficiency ranking, superior performers are assigned a lower stretch factor and inferior performers are assigned a relatively higher stretch factor. All others are assigned an average stretch factor.	M-H	H	H	M-H	H	L

¹ A legend is on the last page of this document.

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
Service Quality ²	Connection of New Services (DSC s7.2)	A connection for a new service request for a low voltage (<750 volts) service must be completed within 5 business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer. A connection for a new service request for a high voltage (>750 volts) service must be completed within 10 business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer.	E	H	R	a) Total number of new low voltage services connected in each month; b) Number of new low voltage services connected in each month for which the service quality requirement set out in section 7.2 of the Distribution System Code was met; c) Percentage of (b) with respect to (a); d) Total number of new high voltage services connected in each month; e) Number of new high voltage services connected in each month for which the service quality requirement set out in section 7.2 of the Distribution System Code was met; and f) Percentage of (e) with respect to (d).	Requirement must be met at least 90 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Appointment Scheduling (DSC s7.3)	When a customer or a representative of a customer requests an appointment, the distributor shall schedule the appointment to take place within 5 business days of the day on which all applicable service conditions are satisfied or on such later date as may be agreed upon by the customer.	E	H	R	a) Total number of appointments described in section 7.3 of the Distribution System Code requested in each month; b) Number of appointments in each month for which the service quality requirement set out in section 7.3 of the Distribution System Code was met; and c) Percentage of (b) with respect to (a).	Requirement must be met at least 90 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Appointments Met (DSC s7.4)	The distributor must offer to schedule the appointment during the distributor's regular hours of operation within a window of time that is no greater than 4 hours (i.e., morning, afternoon or, if available, evening). The distributor must then arrive for the appointment within the scheduled timeframe.	E	M	R	a) Total number of appointments described in section 7.4 of the Distribution System Code requested or required in each month; b) Number of appointments in each month for which the service quality requirement set out in section 7.4 of the Distribution System Code was met; and c) Percentage of (b) with respect to (a).	Requirement must be met at least 90 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Rescheduling a Missed Appointment (DSC s7.5)	The distributor must: (a) attempt to contact the customer before the scheduled appointment to inform the customer that the appointment will be missed; and (b) attempt to contact the customer within one business day to reschedule the appointment.	E	M	R	a) Total number of missed appointments described in section 7.5 of the Distribution System Code in each month; b) Number of missed appointments in each month for which the service quality requirement set out in section 7.5 of the Distribution System Code was met; and c) Percentage of (b) with respect to (a).	Requirement must be met 100 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H

² This information is compiled from the DSC and RRR Codes.

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
Service Quality	Telephone Accessibility (DSC s7.6)	<p>Qualified incoming calls to the distributor's customer care telephone number must be answered within the 30 second time period established under section 7.6.3. (s7.6.1)</p> <p>For qualified incoming calls that are transferred from the distributor's IVR system, the 30 seconds shall be counted from the time the customer selects to speak to a customer service representative. In all other cases, the 30 seconds shall be counted from the first ring (s7.6.3)</p>	E	M	R	<p>a) Total number of qualified incoming calls in each month;</p> <p>b) Number of qualified incoming calls in each month for which the service quality requirement set out in section 7.6 of the Distribution System Code was met; and</p> <p>c) Percentage of (b) with respect to (a).</p>	Requirement must be met at least 65 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Telephone Call Abandon Rate (DSC s7.7)	A qualified incoming call will only be considered abandoned if the call is abandoned after the 30 second period established under section 7.6.1 has elapsed	E	M	R	<p>a) Total number of qualified incoming calls in each month;</p> <p>b) Number of qualified incoming calls in each month that were abandoned before they were answered as described in section 7.7.2 of the Distribution System Code; and</p> <p>c) Percentage of (b) with respect to (a).</p>	The number of qualified incoming calls to a distributor's customer care telephone number that are abandoned before they are answered shall be 10 percent or less on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Written Responses to Enquiries (DSC s7.8)	A written response to a qualified enquiry shall be sent by the distributor within 10 business days.	E	H	R	<p>a) Total number of qualified enquiries received in each month;</p> <p>b) Number of qualified enquiries in each month for which the service quality requirement set out in section 7.8 of the Distribution System Code was met; and</p> <p>c) Percentage of (b) with respect to (a).</p>	Requirement must be met at least 80 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
Service Quality	Emergency Response (DSC s7.9)	Emergency calls must be responded to within 120 minutes in rural areas and within 60 minutes in urban areas.	E	H	R	<p>a) Total number of emergency calls received in each month;</p> <p>b) Number of emergency calls in each month for which the service quality requirement set out in section 7.9 of the Distribution System Code was met; and</p> <p>c) Percentage of (b) with respect to (a)</p>	Requirement must be met at least 80 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
Service Quality	Reconnection Performance Standards (DSC s7.10)	Where a distributor has disconnected the property of a customer for nonpayment, the distributor shall reconnect the property within 2 business days, as defined in section 2.6.7, of the date on which the customer: (a) makes payment in full of the amount overdue for payment as specified in the disconnection notice; or (b) enters into an arrears payment agreement with the distributor referred to in section 2.7.1A.	E	M	R	a) Total number of reconnections in each month; b) Number of reconnections in each month for which the service quality requirement as set out in section 7.10 of the Distribution System Code was met; and c) Percentage of (b) with respect to (a)	Requirement must be met at least 85 percent of the time on a yearly basis.	Compliance is mandatory and can be enforced through the Board's compliance process.	H	L-M	L-M	H	L-M	H
System Reliability ³	System Average Interruption Duration Index (SAIDI)	SAIDI is an indicator of system reliability that expresses the length of interruptions that customers experience in a year on average. All planned and unplanned sustained interruptions should be used to calculate this index. SAIDI is defined as the total customer-hours of sustained interruptions normalized per customer served and is expressed as follows: SAIDI = (Total Customer-Hours of Sustained Interruptions / Total Number of Customers Served)	E	M to H	R	a) Total customer-hours of sustained interruptions in each month; b) Total number of customers served in each month; and c) SAIDI, being (a)/ (b).		Case-by-case. Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.	H	L	L	H	M	H

³ This information is compiled from the RRR Code.

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
System Reliability	SAIDI (Code 2 Outages)	<p>This indicator adjusts SAIDI for the effects of outages caused by a loss of supply, and is calculated in the same way as described in section 2.1.4.2.1, except that the total customer-hours of sustained interruptions caused by a loss of supply is deducted from the total customer-hours of sustained interruptions.</p> <p>Note: This measure is considered to be a better measure than SAIDI for scorecard purposes (because it removes a loss of supply).</p>	E	M	R	<p>a) Total customer-hours of sustained interruptions in each month;</p> <p>b) Total customer-hours of sustained interruptions in each month caused by a loss of supply;</p> <p>c) Total number of customers served in each month; and</p> <p>d) Adjusted SAIDI, being ((a) - (b))/(c).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H
System Reliability	System Average Interruption Frequency Index (SAIFI)	<p>SAIFI is an indicator of the average number of sustained interruptions each customer experiences. All planned and unplanned sustained interruptions should be used to calculate this index.</p> <p>SAIFI is defined as the number of sustained interruptions normalized per customer served, and is expressed as follows:</p> <p>SAIFI = (Number of Sustained Interruptions for all Customers / Total Number of Customers Served)</p>	E	M to H	R	<p>a) Total number of sustained interruptions in each month;</p> <p>b) Total number of customers served in each month; and</p> <p>c) SAIFI, being (a)/ (b).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H
System Reliability	SAIFI (Code 2 Outages)	<p>This indicator adjusts SAIFI for the effects of outages caused by a loss of supply, and is calculated in the same way as described in section 2.1.4.2.3, except that the total number of interruptions caused by a loss of supply is deducted from the total number of customer interruptions.</p> <p>Note: This measure is considered to be a better measure than SAIFI for scorecard purposes (because it removes a loss of supply).</p>	E	M to H	R	<p>a) Total number of sustained interruptions in each month;</p> <p>b) Total number of sustained interruptions in each month caused by a loss of supply;</p> <p>c) Total number of customers served in each month; and</p> <p>d) Adjusted SAIFI, being ((a) - (b))/(c).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
System Reliability	Customer Average Interruption Duration Index (CAIDI)	<p>CAIDI is an indicator of the speed at which power is restored. All planned and unplanned sustained interruptions should be used to calculate this index.</p> <p>CAIDI is defined as the number of sustained interruptions normalized per customer served, and is expressed as follows:</p> <p>CAIDI = (Customer-hours of Sustained Interruptions for all Customers / Number of Sustained Interruptions for all Customers)</p> <p>Note: Not a good measure for scorecard purposes because it could be misleading.</p>	E	M to H	R	<p>a) Total customer-hours of sustained interruptions in each month;</p> <p>b) Total number of sustained interruptions in each month; and</p> <p>c) CAIDI, being (a)/ (b).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H
System Reliability	CAIDI (Code 2 Outages)	This indicator adjusts CAIDI for the effects of outages caused by a loss of supply.	E	M to H	R	<p>a) SAIDI (Code 2 Outages) as calculated in accordance with section 2.1.4.2.2;</p> <p>b) SAIFI (Code 2 Outages) as calculated in accordance with section 2.1.4.2.4; and</p> <p>c) Adjusted CAIDI, being (a)/ (b).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H
System Reliability	Momentary Average Interruption Frequency Index (MAIFI)	<p>MAIFI is an indicator of the average number of momentary interruptions each customer experiences. All planned and unplanned momentary interruptions should be used to calculate this index.</p> <p>MAIFI is defined as the number of momentary interruptions normalized per customer served, and is expressed as follows:</p> <p>MAIFI = (Number of Momentary Interruptions for all Customers / Total Number of Customers Served)</p> <p>Distributors that do not have the systems capability that enables them to capture or measure MAIFI are exempted from this reporting requirement.</p>	E	M	R	<p>a) Total number of momentary interruptions in each month;</p> <p>b) Total number of customers served in each month; and</p> <p>c) MAIFI, being (a)/ (b).</p>		<p>Case-by-case.</p> <p>Distributors monitor the System Reliability Measures on a monthly basis and report on them annually and in their rate applications to the Board.</p>	H	L	L	H	M	H

Performance Category	Measure	Description	Status (Existing, New)	Confidence in data (High, Medium, Low)	Recorded, Reported, or Derived from E/R	How quantified	Defined target	Consequences	Strength against Criteria ¹ (High, Medium, Low)					
									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
Customer Satisfaction	Complaints by consumers and market participants ⁴	A distributor shall maintain records of all written complaints by consumers and market participants regarding services provided under the terms of the distributor's licence and responses for a period of two years.	E	L	E	a) The name and address of the complainant; b) A description of the nature of the complaint including a copy of the written complaint; c) A description of the remedial action taken; and d) A copy of any correspondence received and/or sent with respect to each specific complaint. Note: Low confidence in the data impacts the ranking in terms of the six criteria.		Case-by-case.	H	M	L-M	L	L	L
Overall Cost Performance	OM&A cost per customer	The use of unit cost metrics facilitates cost comparisons between the companies.	E	H	D	OM&A Costs/Number of Customers			H	H	H	H	M	H
Overall Cost Performance	Net Plant Cost per Customer	The unit cost metric provides an indication of how much a company has invested to provide service to its customers.	E	H	D	Net Plant Cost (Property plant & equipment - Accumulated depreciation & amortization)/Number of Customers			H	H	H	H	M	H
Financial Ratios ⁵	Liquidity: Current Ratio	A financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months.	E	H	D	Current Assets/Current Liabilities			M	M	H	H	M	H
Financial Ratios	Leverage: Debt Ratio	Leverage ratios show the degree to which a company is leveraging itself through its use of borrowed money.	E	H	D	Total Debt (includes short-term and long-term debt)/Total Assets			M	M	H	H	M	H
Financial Ratios	Leverage: Debt to Equity Ratio	Leverage ratios show the degree to which a company is leveraging itself through its use of borrowed money. Note: Board approved is 60/40 or 1.5.	E	H	D	Total Debt/Total Equity			M	M	H	H	M	H
Financial Ratios	Leverage: Interest Coverage	A ratio that is used to determine a company's ability to pay interest on outstanding debt.	E	H	D	EBIT/Interest Charges			M	M	H	H	M	H
Financial Ratios	Profitability: Financial Statement Return on Assets	Profitability ratios measure the company's use of its assets and control of its expenses to generate an acceptable rate of return. Note: ROA is not used to set rates therefore not included in scorecard.	E	H	D	Net Income/Total Assets			M	M	H	H	M	H

⁴ This information is compiled from the RRR Code.

⁵ This information is compiled from Electricity Distributor Yearbook, including the descriptions.

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									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
Financial Ratios	Profitability: Financial Statement Return on Equity	Profitability ratios measure the company's use of its assets and control of its expenses to generate an acceptable rate of return. Note: ROE calculations are adjusted for interest and PILS/taxes.	E	H	D	Net Income/Total Equity			M	M	H	H	M	H
Financial Ratios	Profitability: Regulatory Return on Equity	Note: Rates use deemed debt/equity; therefore, propose Regulatory ROE and Financial Statement ROE be on scorecard.	E	H	R	Calculations are based on the Board's Report on Cost of Capital for Ontario's Regulated Entities (EB-2009-0084), December 2009.	Used in relation to IRM for off-ramp and potential plan review when actual ROE is +/-300 bp more than the allowed ROE.	Case-by-case.	M	M	H	H	M	H
Government Policy Directive on Conservation & Demand Management	2014 Net Annual Peak Demand Savings Target (MW) ⁶	The Minister of Energy and Infrastructure issued a directive dated March 31, 2010 to the Ontario Energy Board with regard to electricity conservation and demand management ("CDM") Targets to be met by licensed electricity distributors.	E	H	R	Demand savings (MW)	Company-specific.	A distributor may accrue a performance incentive once it meets 80% of each of its CDM Targets. Performance incentives shall not accrue for performance that exceeds 150% of each CDM Target ⁷						
Government Policy Directive on Conservation & Demand Management	2011-2014 Net Cumulative Energy Savings Target (GWh) ⁸	The Minister of Energy and Infrastructure issued a directive dated March 31, 2010 to the Ontario Energy Board with regard to electricity CDM Targets to be met by licensed electricity distributors.	E	H	R	Energy savings (GWh)	Company-specific.	A distributor may accrue a performance incentive once it meets 80% of each of its CDM Targets. Performance incentives shall not accrue for performance that exceeds 150% of each CDM Target ⁹						
Asset Management	Line Losses	Distributors are allowed to recover distribution system losses in their rates and losses are filed through the RRR.	E	H	R	2.1.5.3 c) Distribution losses in kWhs								

⁶ On March 14, 2011, the Board issued its Decision and Order for revised 2011-2014 Conservation and Demand Management Targets ([Decision and Order](#)).

⁷ Conservation and Demand Management Code for Electricity Distributors. September 16, 2010. Sub-section 7.2.2.

⁸ On March 14, 2011, the Board issued its Decision and Order for revised 2011-2014 Conservation and Demand Management Targets ([Decision and Order](#)).

⁹ Conservation and Demand Management Code for Electricity Distributors. September 16, 2010. Sub-section 7.2.2.

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									Customer-oriented	Encourages Improvement	Trend Analysis	Measurable	Considers Business Conditions	Practical
NEW														
Connection of Renewable Generation	Average time to connect	As set out in section 6.2 of the DSC, distributors' responsibilities to generators in relation to the connection process include specific cycle-time standards. As set out in 2.3.11 of the RRR, distributors shall maintain records on applications for the connection of embedded generation facilities to the distribution system, including connections to distribution systems embedded within the distributor's system, and that information shall include, amongst other matters: - the date of the applicant's request for a preliminary meeting; and - the date the distributor connects the generation facility.	N	H		<i>To be determined.</i> Simple illustration: $\frac{\sum(\text{Date Connected} - \text{Date of Request})}{\text{Number of Requests to Connect}}$			<i>To be determined in consultation with stakeholders</i>					
Asset Management	TBD...		N											
Customer Satisfaction	Customer Survey Results		N											
Overall cost performance	Capital Budget vs. Actual		N											

Legend:

Criteria	Description in Board Report
Customer-oriented	• be reflective of customer needs and expectations
Encourages Improvement	• encourage year-over-year performance gains
Trend Analysis	• reveal current performance and signal future performance
Measurable	• be measurable by each distributor, and be aligned with their reporting for their own internal purposes to the extent possible ¹⁰
Considers Business Conditions	• consider the characteristics of a distributor's service territory
Practical	• be practical

¹⁰ While all of these measures are "measurable", some may be difficult for the individual distributor to calculate. Therefore, staff has assessed these measures as "medium".

Appendix: Establishing the Efficiency Ranking

The text in this appendix is replicated from the Board's:

- EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated July 14, 2008; and
- EB-2007-0673 Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated September 17, 2008.

Stretch Factor Assignment

The Board has determined that non-negative (i.e., >0 or =0) stretch factors will be included in the X-factor. The Board believes that stretch factors are required in 3rd Generation IR and is not persuaded by the arguments that stretch factors are only warranted immediately after distributors switch from years of cost of service regulation to IR. Productivity stretch factors promote, recognize and reward distributors for efficiency improvements relative to the expected sector productivity trend. Consequently, stretch factors continue to have an important role in IR plans after distributors move from cost of service regulation.

The Board has concluded that distributors will be assigned to one of three groups with stretch factors based on their efficiency as determined through comparative cost analysis. Using the resultant efficiency ranking, superior performers could be assigned a lower stretch factor and inferior performers could be assigned a relatively higher stretch factor. All others could be assigned an average stretch factor.

Establishing the Efficiency Ranking

The Board will use the results of two benchmarking evaluations to divide the Ontario industry into three efficiency "cohorts." Until total cost data is available, and the models are revised in consultation with stakeholders to carry out total cost benchmarking, these evaluations will be done using the most recent three years of OM&A cost data available in July of each year. For example, for the 2009 rate year the efficiency evaluations will be based on efficiency evaluations done using OM&A cost data for the years 2005, 2006 and 2007.

The first benchmarking evaluation will use an econometric model to assess the efficiency of each distributor's costs. The econometric model set out in the PEG Benchmarking Report controls for the impact of various factors beyond management control on a distributor's OM&A costs. These factors, determined by PEG's analysis to be significant drivers of OM&A costs, include the number of customers served, kWh deliveries, the price of OM&A inputs (including labour), the percent of distribution line that was underground, system age and whether or not the distributors' territory is located on the Canadian Shield. This benchmarking model will be used to predict each distributor's OM&A costs, and the distributor's actual OM&A costs will be compared to the econometric prediction. A distributor will be deemed to be "statistically superior" if its actual OM&A costs are lower than the costs predicted by the econometric model and the difference is statistically significant. A distributor will be deemed to be "statistically inferior" if its actual OM&A costs are higher than the costs predicted by the econometric model and the difference is statistically significant. All distributors that are neither statistically superior nor statistically inferior will be deemed to be average cost performers.

The second evaluation will be based on comparisons of distributors' OM&A costs per unit of comprehensive distribution output. These unit cost evaluations will be based on a comparison between a given distributor's unit OM&A costs and the average unit OM&A costs of a peer group. There are a total of 12 peer groups identified in the PEG Benchmarking Report, which are defined based on the size of

distributors, location in the Province (Northern, Southern or Greater Toronto Area), the degree of undergrounding, and whether the distributor has been experiencing rapid growth. PEG determined that these factors were most strongly associated with similarities in unit cost levels across distributors.

The two evaluations will then be compared and those distributors that rank superior in both will be assigned to Group I. Those distributors that rank inferior in both will be assigned to Group III. 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 II, as shown in Table 1.

Table 1: Efficiency Cohorts for Stretch Factor Assignments

Group	Benchmarking Evaluations	Stretch Factor Value
I	Statistically superior and in top quartile on OM&A unit cost comparison	0.2%
II	In middle two quartiles on OM&A unit cost comparison	0.4%
III	Statistically inferior and in bottom quartile on OM&A unit cost comparison	0.6%

Using this approach, the Board expects that the resultant efficiency ranking will approximate a normal distribution (i.e., “bell curve”) where about two-thirds of Ontario distributors will be in the middle and “average” performers, about one-sixth of the distributors will be identified as “superior” performers in Group I, and about one-sixth of the distributors will be classified in Group III.

Implementation

Stretch factors will be in effect for the term of the plan.

Each year the cohorts for the entire sector will be re-evaluated. This means that the stretch factor for a given distributor may change during the term of the IR plan. This approach will recognize and reward distributors for efficiency improvements during the term of the IR plan. A distributor’s individual ranking can be directly affected by its own efforts and can also be affected by the efficiencies achieved by other distributors. This means, for example, that a distributor initially ranked as a superior performer must continue to outperform its peers to maintain that ranking and associated stretch factor. The approach will call for the Board to publish revised cohort rankings by the end of August each year. This will give distributors sufficient time to incorporate changes in their individual stretch factors when they apply to have their rates set for the following year.