

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



BY WEB POSTING

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To: All Licensed Electricity Distributors

**Re: Empirical Research in Support of Incentive Rate-Setting: 2014
Benchmarking Update for determination of Stretch Factor Assignments
for 2016**

In 2013, the Ontario Energy Board (OEB) issued a report titled “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” dated December 4, 2013 (Board Report), in which the OEB set forth the framework for setting rate adjustment formulas for local distribution companies. The use of stretch factors, as part of the Price Cap IR productivity factor, was approved by the OEB and stated in the Board Report.

With the development of total cost benchmarking, and in light of continuing concerns with the use of peer group analysis, the OEB determined that distributors will be assigned to one of five groups with stretch factors based on their efficiency as determined through econometric total cost benchmarking model. The OEB also determined that the appropriate stretch factor values range from 0.0% to 0.6%. The OEB set the lower-bound stretch factor value to zero to strengthen the efficiency incentives inherent in the rate-adjustment mechanism and in doing so reward the top performers.

The OEB has continued the current stretch factor methodology with annual data updates for the duration of Price Cap IR. These stretch factor assignments are based on the results of a statistical cost benchmarking study designed to make inferences on individual distributors’ cost efficiency. The annual Price Cap IR applications from the electricity distributors require an update to stretch factors for preparation of the rates and tariff of charges.

The OEB has recently received a study report that was prepared by Pacific Economics Group Research, LLC. (PEG) which includes updates to the stretch factor assignments for the Price Cap IR applications (2015 Benchmarking Report). PEG developed total cost measures for 72 electricity distributors in Ontario using the Reporting and Record-Keeping Requirements (RRR) data that were reported

by the distributors to the OEB. In this report, which can be found on the OEB's website, PEG has followed the same methodology as for 2014 stretch factors and has ranked the distributors into five efficiency cohorts.

The 2015 Benchmarking Report presents the results of PEG's most recent Ontario benchmarking analysis, which identifies the 2016 rate year efficiency cohort groupings. The 2015 Benchmarking Report also describes the methodology used to identify the cohorts. These efficiency cohort groupings are used in the calibration of the Price Cap IR stretch factors for Ontario's electricity distributors i.e., the Price Cap Incentive Rate-setting and the Annual Incentive Rate-setting Index applications.

The OEB has reviewed the 2015 Benchmarking Report relative to the groupings as published in the Board's report dated December 4, 2013. The table below contains three distributors whose 2015 stretch factor assignments changed compared to their 2014 stretch factor assignments. Of those companies that have new stretch factors, one moved up to new cohorts and one moved down in their respective groups. The OEB notes that all other relative groupings remain the same.

Company Name	2014 Stretch factor ranking	2015 Stretch factor ranking
BRANT COUNTY POWER INC.	Cohort 4 (0.45)	Cohort 3 (0.30)
LAKELAND POWER DISTRIBUTION LTD. (Including Parry Sound for 2015 ranking)	Cohort 2 (0.15)	Cohort 3 (0.30)
PARRY SOUND POWER CORPORATION	Cohort 3 (0.30)	Not Applicable

Any general inquiries regarding the above matter should be directed to OEB's Industry Relations at 416-440-7604 or by e-mail at IndustryRelations@ontarioenergyboard.ca. The OEB's toll free number is 1-888-632-6273.

Yours truly,

Original signed by

Kirsten Walli,
Board Secretary